FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

UNIONBANCORP INC

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

Commission File Number: 0-28846

UNIONBANCORP, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	36-3145350
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

122 WEST MADISON STREET, OTTAWA, ILLINOIS	61350
(Address of principal executive offices)	(Zip Code)

(815) 433-7030
(Registrant's telephone number, including area code)

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

Title of Exchange Class	Name of Each Exchange On Which Registered
NONE	NONE

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

COMMON STOCK ($1.00 PAR VALUE)
(Title of Class)

PREFERRED PURCHASE RIGHTS
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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

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

As of March 8, 1999, the Registrant had issued and outstanding 4,262,359 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 8, 1999, was $32,272,085.*

* Based on the last reported price $14.50 of an actual transaction in the Registrant's Common Stock on March 8, 1999, and reports of beneficial ownership filed by directors and executive officers of the Registrant and by beneficial owners of more than 5% of the outstanding shares of Common Stock of the Registrant; however, such determination of shares owned by affiliates does not constitute an admission of affiliate status

or beneficial interest in shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's 1998 Annual Report to Stockholders (the "1998 Annual Report") are incorporated by reference into Part II of this Form 10-K.

Certain portions of the Proxy Statement for the 1999 Annual Meeting of Stockholders (the "1999 Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

UNIONBANCORP, INC.

Form 10-K Annual Report

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

GENERAL

The Company, a Delaware corporation, is a regional financial services company based in Ottawa, Illinois, which has four bank subsidiaries (the "Banks"). The Banks serve communities throughout Central and Northern Illinois through twenty-six locations, including its newest branch opened in Quincy, Illinois during the first quarter of 1999. The Company also has three non-bank subsidiaries, UnionData Corp., Inc. ("UnionData"), which provides data processing services; UnionTrust Corporation ("UnionTrust", formerly known as Union Corporation), a trust company which also serves as an owner and lessor of banking offices to certain of the Banks; and Union Financial Services, Inc., an insurance/brokerage agency with its headquarters located in Peru, Illinois. The Banks and the three non-bank subsidiaries are collectively referred to as the "Subsidiaries." At December 31, 1998, the Company had consolidated assets of approximately $627.2 million, deposits of approximately $517.6 million and stockholders' equity of approximately $57.1 million.

HISTORICAL

The Company was originally formed in 1982 as the bank holding company for UnionBank, an Illinois state bank with its main office located in Streator, Illinois ("UnionBank"). In 1984, UnionBank/Sandwich, an Illinois state bank with its main office located in Sandwich, Illinois ("Sandwich"), became a subsidiary of the Company. In 1991, the Ottawa National Bank, Ottawa, Illinois, was acquired and merged into UnionBank.

During 1996, the Company acquired all of the issued and outstanding capital stock of Prairie Bancorp, Inc. ("Prairie"), a multi-bank holding company with six bank subsidiaries located in the Illinois communities of Carthage, Hanover, Ladd, Manlius, Tampico and Tiskilwa, and also acquired Country Bancshares, Inc. ("Country"), a one-bank holding company with an Illinois bank subsidiary located in Macomb, Illinois.

In 1997, the Company acquired the remaining minority stock ownership interests in and consolidated the operations of certain of the Banks. Also in 1997, Sandwich was merged with and into UnionBank; Tampico National Bank and The First National Bank of Manlius were merged with and into Tiskilwa State Bank under the name "UnionBank/Central"; and the Farmers State Bank of Ferris was merged with and into Omni Bank under the name "UnionBank/West." The Company's other banking subsidiary is UnionBank/Northwest, an Illinois state bank with its main office located in Hanover, Illinois ("UnionBank/Northwest").

During 1998, the Company, through its wholly-owned subsidiary UnionFinancial Services, Inc., acquired the Mercier Insurance Agency, an insurance/brokerage firm. Also, during the first quarter of 1998, UnionData Corp, Inc., a wholly-owned electronic data processing subsidiary of the Company, acquired Sainet, an Internet Service Provider. Both of these endeavors are a part of the transformation of the Company's internal structure that is intended to create a much more efficient organization capable of generating sustained revenue and earnings growth. In addition, during 1998 the Company sold its 81.7% ownership of the outstanding stock of the Bank of Ladd, an Illinois state bank with its main office located in Ladd, Illinois ("Ladd"). The Company also sold Credit Recovery, Inc., a small collection agency subsidiary acquired in 1996.

OPERATIONS

The Company's strategic plan contemplates an increase in profitability and stockholder value through a significant expansion of the Company's market area, substantial growth in its asset size and improved operational efficiencies. In 1993, the Company began implementing this plan by realigning its management structure through the redefinition of certain officers' duties and functions, hiring additional experienced senior executives and developing among its employees an aggressive sales culture. The acquisitions of Prairie and Country significantly increased the

presence of the Company within the region's banking industry. Because of the reputations of the Company and its executive officers in the banking industry, the Company believes that it will be an attractive alternative to future sellers of community banks and thrifts. The Company believes that it can successfully manage these community-based institutions to increase their profitability by expanding cross-selling efforts and emphasizing those products and services offering the highest return on investment.

The Company'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 bank. Decentralized decision making authority vested in the presidents and senior officers of the Banks allows for rapid response time and flexibility in dealing with customer requests and credit needs. The participation of the Company's directors, officers and employees in area civic and service organizations demonstrates the Company's continuing commitment to the communities it serves. Management believes that these qualities distinguish the Company from its competitors and will allow the Company to compete successfully in its market area against larger regional and out-of-state institutions.

The Company serves the banking needs of LaSalle and contiguous counties located in north central Illinois (LaSalle and portions of Livingston, Grundy, Bureau, Kane, Kendall and DeKalb Counties) through the Banks. The Company has recently expanded its lending and deposit gathering activities from north central Illinois into certain of the counties surrounding the Chicago metropolitan area, including Kane and Kendall Counties, as well as into additional areas of Northern and Western Illinois.

The Banks provide a range of commercial and retail lending services to corporations, partnerships 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. The Banks make direct and indirect installment loans to consumers and commercial customers, and originate and service residential mortgages and handle the secondary marketing of those mortgages. Agricultural loans also play a role in the Company's overall lending portfolio, although most of this lending activity is based in the north central portion of the Company's market area.

The Company has centralized the lending policies of the Banks as part of the process of integrating the operations of acquired banks into this organization. It is anticipated that the lending policies of any banks acquired in the future would also be centralized, although the Company strives to have its bank subsidiaries retain their local focus.

The Company also provides a variety of additional services and financial products, including trust and asset management services through UnionTrust, a full line of insurance and investment opportunities through UnionFinancial Services, MasterCard and Visa credit cards, and a debit card program inaugurated in 1994. An automated payment option called Direct Payment, which is an efficient, electronic payment alternative to paper checks, is offered through UnionData. The Company also conducts all of its own data processing for the Banks through UnionData.

COMPETITION

The Company's market area is highly competitive. Within the twelve Illinois counties served by the Company's banking offices, many commercial banks, savings and loan associations and credit unions currently operate offices. In addition, many other financial institutions based in surrounding communities and in Chicago, Illinois, actively compete for customers within the Company's market area. The Company also faces competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds, loan production offices and other providers of financial services.

The Company competes for loans principally through the range and quality of the services it provides and through competitive interest rates and loan fees. The Company believes that its long-standing presence in the communities its serves and personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

EMPLOYEES

At December 31, 1998, the Company employed 338 full-time equivalent employees. The Company places high priority on staff development which involves extensive training, including customer service training. New employees are selected on the basis of both technical skills and customer service capabilities. None of the Company's employees are covered by a collective bargaining agreement with the Company. The Company offers a variety of employee benefits and management considers its employee relations to be excellent.

SUPERVISION AND REGULATION

GENERAL

Financial institutions and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC"), the Illinois Commissioner of Banks and Real Estate (the "Commissioner"), the Internal Revenue Service and state taxing authorities and the Securities and Exchange Commission (the "SEC"). The effect of applicable statutes, regulations and regulatory policies can be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance funds and the depositors, rather than the shareholders, of financial institutions.

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and its subsidiaries, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries.

RECENT REGULATORY DEVELOPMENTS

PENDING LEGISLATION. Legislation has been introduced in the Congress that would allow bank holding companies to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities. The expanded powers generally would be available to a bank holding company only if the bank holding company and its bank subsidiaries remain well-capitalized and well-managed. At this time, the Company is unable to predict whether the proposed legislation will be enacted and, therefore, is unable to predict the impact such legislation may have on the Company and the Bank.

THE COMPANY

GENERAL. The Company (as the sole shareholder of UnionBank), Prairie (as the sole shareholder of UnionBank/Central and UnionBank/Northwest) and Country (as the sole shareholder of UnionBank/West) are bank holding companies. As bank holding companies, the Company, Prairie and Country are registered with, and are subject to regulation by, the Federal Reserve under the Bank Holding Company Act, as amended (the "BHCA"). In accordance with Federal Reserve policy, the Company, Prairie and Country are expected to act as a source of financial strength to their bank subsidiaries and to commit resources to support their bank subsidiaries in circumstances where the Company, Prairie or Country might not otherwise do so. Under the BHCA, the Company, Prairie and Country are subject to periodic examination by the Federal Reserve. The Company, Prairie and Country are also required to file with the Federal Reserve periodic reports of their respective operations and such additional information as the Federal Reserve may require.

The Company, Prairie and Country are also subject to regulation by the Commissioner under the Illinois Bank Holding Company Act, as amended.

INVESTMENTS AND ACTIVITIES. Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the other bank or bank holding company (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank; or (iii) merging or consolidating with another bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws which require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA also generally prohibits the Company, Prairie and Country from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be "so closely related to banking ... as to be a proper incident thereto." Under current regulations of the Federal Reserve, the Company, Prairie and Country and their non-bank subsidiaries are permitted to engage in a variety of banking-related businesses, including the operation of a thrift, sales and consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Federal law also prohibits any person or company from acquiring "control" of a bank or a bank holding company without prior notice to the appropriate federal bank regulator. "Control" is defined in certain cases as the acquisition of 10% of the outstanding shares of a bank or bank holding company.

CAPITAL REQUIREMENTS. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: a risk-based requirement expressed as a percentage of total risk-weighted assets, and a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt

and equity instruments which do not qualify as Tier 1 capital and a portion of the company's allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (I.E., Tier 1 capital less all intangible assets), well above the minimum levels.

As of December 31, 1998, the Company, Prairie and Country each had regulatory capital in excess of the Federal Reserve's minimum requirements, as follows:

<TABLE>
<CAPTION>

	Risk-Based Capital Ratio	Leverage Capital Ratio
<S>	<C>	<C>
Company	12.23%	7.66%
Prairie	14.96%	8.76%
Country	15.22%	9.35%

</TABLE>

DIVIDENDS. The Delaware General Corporation Law (the "DGCL") allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Further, the Illinois Business Corporation Act, as amended, prohibits an Illinois corporation, such as Prairie or Country, from paying a dividend if, after giving effect to the dividend: (i) the corporation would be insolvent; or (ii) the net assets of the corporation would be less than zero; or (iii) the net assets of the corporation would be less than the maximum amount then payable to shareholders of the corporation who would have preferential distribution rights if the corporation were liquidated.

Additionally, the Federal Reserve has issued a policy statement with regard to the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company should not pay cash dividends which exceed its net income or which can only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

FEDERAL SECURITIES REGULATION. The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

THE BANK

GENERAL. All of the Bank Subsidiaries are Illinois-chartered banks, the deposit accounts of which are insured by the FDIC's Bank Insurance Fund ("BIF"). All of the Bank Subsidiaries are also members of the Federal Reserve System ("member banks"). As Illinois-chartered, FDIC-insured member banks, the Bank Subsidiaries are subject to the examination, supervision, reporting and enforcement requirements of the Commissioner, as the chartering authority for Illinois banks, the Federal Reserve, as the primary federal regulator of member banks, and the FDIC, as administrator of the BIF.

DEPOSIT INSURANCE. As FDIC-insured institutions, the Bank Subsidiaries are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their respective levels of capital and results of supervisory evaluations. Institutions classified as well-capitalized (as defined by the FDIC) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (as defined by the FDIC) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

During the year ended December 31, 1998, BIF assessments ranged from 0% of deposits to 0.27% of deposits. For the semi-annual assessment period beginning January 1, 1999, BIF assessment rates will continue to range from 0% of deposits to 0.27% of deposits.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution (i) has engaged or is engaging in unsafe or unsound practices, (ii) is in an unsafe or unsound condition to continue operations or (iii) has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management of the Company is not aware of any activity or condition that could result in termination of the deposit insurance of any of the Bank Subsidiaries.

FICO ASSESSMENTS. Since 1987, a portion of the deposit insurance assessments paid by members of the FDIC's Savings Association Insurance Fund ("SAIF") has been used to cover interest payments due on the outstanding obligations of the Financing Corporation ("FICO"). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation, the SAIF's predecessor insurance fund. As a result of federal legislation enacted in 1996, beginning as of January 1, 1997, both SAIF members and BIF members became subject to assessments to cover the interest payments on outstanding FICO obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. Until January 1, 2000, the FICO assessments made against BIF members may not exceed 20% of the amount of the FICO assessments made against SAIF members. Between January 1, 2000 and the final maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a PRO RATA basis. During the year ended December 31, 1998, the FICO assessment rate for SAIF members ranged between approximately 0.061% of deposits and approximately 0.063% of deposits, while the FICO assessment rate for BIF members ranged between approximately 0.012% of deposits and approximately 0.013% of deposits.

SUPERVISORY ASSESSMENTS. All Illinois banks are required to pay supervisory assessments to the Commissioner to fund the operations of the Commissioner. The amount of the assessment is calculated based on the institution's total assets, including consolidated subsidiaries, as reported to the Commissioner. During the year ended December 31, 1998, the Bank Subsidiaries paid supervisory assessments to the Commissioner totaling $83,665.

CAPITAL REQUIREMENTS. The Federal Reserve has established the following minimum capital standards for state-chartered Federal Reserve System member banks, such as the Bank Subsidiaries: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. For purposes of these capital standards, Tier 1 capital and total capital consist of substantially the same components as Tier 1 capital and total capital under the Federal Reserve's capital guidelines for bank holding companies (SEE "--The Company--Capital Requirements").

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the Federal Reserve provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

During the year ended December 31, 1998, none of the Bank Subsidiaries was required by the Federal Reserve to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 1998, each of the Bank Subsidiaries exceeded its minimum regulatory capital requirements, as follows:

<TABLE>
<CAPTION>

<S>	Risk-Based Capital Ratio <C>	Leverage Capital Ratio <C>
UnionBank	11.03%	7.32%
UnionBank/West	15.30%	9.41%
UnionBank/Central	14.38%	8.61%
UnionBank/Northwest	17.79%	9.40%

</TABLE>

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the institution to submit a capital restoration plan; limiting the institution's asset growth and restricting its activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions between the institution and its affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution. As of December 31, 1998, each of the Bank Subsidiaries was well capitalized, as defined by Federal Reserve regulations.

Additionally, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC insured depository institutions in danger of default. Because the Bank Subsidiaries are all directly or indirectly wholly-owned by the Company, the Bank Subsidiaries are deemed to be commonly controlled.

DIVIDENDS. Under the Illinois Banking Act, Illinois-chartered banks may not pay, without prior regulatory approval, dividends in excess of their net profits.

The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Bank Subsidiaries. Generally, a member bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank's board of directors deems prudent. Without prior Federal Reserve approval, however, a state member bank may not pay dividends in any calendar year which, in the aggregate, exceed the bank's calendar year-to-date net income plus the bank's retained net income for the two preceding calendar years.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Bank Subsidiaries exceeded its minimum capital requirements under applicable guidelines as of December 31, 1998. As of December 31, 1998, approximately $1.8 million was available to be paid as dividends to the Company by the Bank Subsidiaries. Notwithstanding the availability of funds for dividends, however, the Federal Reserve may prohibit the payment of any dividends by the Bank if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

INSIDER TRANSACTIONS. The Bank Subsidiaries are subject to certain restrictions imposed by federal law on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank Subsidiaries to their respective directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company, and to "related interests" of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which one of the Bank Subsidiaries maintains a correspondent relationship.

SAFETY AND SOUNDNESS STANDARDS. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In addition, in October 1998, the federal banking regulators issued safety and soundness standards for achieving Year 2000 compliance, including standards for developing and managing Year 2000 project plans, testing remediation efforts and planning for contingencies.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

BRANCHING AUTHORITY. Illinois banks, such as the Bank Subsidiaries, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), both state and national banks are allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed by the Riegle-Neal Act only if specifically authorized by state law. The legislation allowed individual states to "opt-out" of certain provisions of the Riegle-Neal Act by enacting appropriate legislation prior to June 1, 1997. Illinois has enacted legislation permitting interstate mergers beginning on June 1, 1997, subject to certain conditions, including a prohibition against interstate mergers involving an Illinois bank that has been in existence and continuous operation for fewer than five years.

STATE BANK ACTIVITIES. Under federal law and FDIC regulations, FDIC insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank Subsidiaries.

FEDERAL RESERVE SYSTEM. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating $46.5 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $46.5 million, the reserve requirement is $1.395 million plus 10% of the aggregate amount of total transaction accounts in excess of $46.5 million. The first $4.9 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank Subsidiaries are in compliance with the foregoing requirements.

INSURANCE SUBSIDIARY

UnionBank is the sole shareholder of UnionFinancial Services, Inc. ("UFS"), an Illinois corporation licensed as a general insurance agency by the Illinois Department of Insurance (the "Department"). UFS is subject to supervision and regulation by the Department with regard to compliance with the laws and regulations governing insurance agents and by the Commissioner and the Federal Reserve with regard to compliance with banking laws and regulations applicable to subsidiaries of Illinois-chartered member banks.

THE TRUST COMPANY

The Company is the sole shareholder of UnionTrust Corporation (the "Trust Company"), an Illinois corporation which conducts a full service trust business in the State of Illinois pursuant to a certificate of authority issued to it be the Commissioner under the Illinois Corporate Fiduciaries Act (the "Fiduciaries Act"). The Fiduciaries Act requires the Trust Company, among other things, to maintain a minimum level of capital, as determined by the Commissioner, and to obtain the approval of the Commissioner before opening branch offices or acquiring another trust company. The Trust Company is subject to periodic examination by the Commissioner and the Commissioner has the authority to take action against it to enforce compliance with the laws applicable to its operations. The Trust Company is also subject to supervision and regulation by the Federal Reserve under the BHCA.

ITEM 2. PROPERTIES

At December 31, 1998, the Company operated 25 banking offices in Illinois. The principal offices of the Company are located in Ottawa, Illinois. All of the Company's offices are owned by either one of the Banks or by UnionTrust Corporation and are not subject to any mortgage or material encumbrance. The Company believes that its current facilities are adequate for its existing business. During the first quarter of 1999, the Company opened a branch located in Quincy, Illinois.

AFFILIATE	MARKETS SERVED	PROPERTY/TYPE LOCATION
The Company		Administrative Office: Ottawa, IL
UnionBank	LaSalle, Grundy, Livingston, Kane, Kendall and DeKalb Counties	Main Office: Streator, IL Eleven banking offices located in markets served.
UnionBank/Central	Bureau and LaSalle Counties	Main Office: Princeton, IL Five banking offices located in markets served.
UnionBank/West	McDonough, Adams, Hancock and Pike Counties	Main Office: Macomb, IL Eight banking offices located in markets served.
UnionBank/Northwest	Jo Davies County	Main Office: Hanover, IL Two banking offices located in markets served.

AFFILIATE	MARKETS SERVED	PROPERTY/TYPE LOCATION
UnionData Corp, Inc.	LaSalle, Kendall, DeKalb, McDonough, Adams and Pike Counties	Main Office: Streator, IL Additional office located in Macomb, IL
UnionFinancial Services, Inc.	LaSalle and Adams Counties	Main Office: Peru, IL Additional offices located in Mendota, Spring Valley, and Quincy, IL
UnionTrust Corporation	LaSalle County	Main Office: Ottawa, IL Additional offices located in Streator, Princeton and Macomb

In addition to the banking locations listed above, the Banks own 24 automatic teller machines, some of which are housed within a banking office and some of which are independently located.

At December 31, 1998, the properties and equipment of the Company had an aggregate net book value of approximately $13.9 million.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any of its subsidiaries are involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business, which, in the opinion of management, in the aggregate, are not material to the Company's consolidated financial condition. ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no items submitted to a vote of security holders in the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock was held by approximately 630 stockholders of record as of March 8, 1999, and is traded on the Nasdaq Stock Market under the symbol "UBCD." The table below indicates the high and low sales prices of the Common Stock for transactions of which the Company is aware, and the dividends declared per share for the Common Stock during the periods indicated. Because the Company is not aware of the price at which certain private transactions in the Common Stock have occurred, the prices shown may not necessarily represent the complete range of prices at which transactions in the Common Stock have occurred during such periods.

<TABLE>
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	STOCK SALES(1)		
	HIGH	LOW	CASH DIVIDENDS(1)
1996			
First Quarter	$11.33	$10.00	$0.033
Second Quarter	2.00	10.67	0.033
Third Quarter	2.00	11.00	0.035
Fourth Quarter	4.50	11.50	0.035
1997			
First Quarter	14.50	12.50	0.035
Second Quarter	14.13	12.00	0.035
Third Quarter	17.38	13.38	0.035
Fourth Quarter	21.88	17.06	0.035
1998			
First Quarter	21.13	18.13	0.035
Second Quarter	21.00	18.50	0.035
Third Quarter	18.88	13.75	0.035
Fourth Quarter	17.00	11.75	0.040

</TABLE>

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(1) Restated to reflect the three-for-one stock split which took effect on May 20, 1996.

The holders of the Common Stock are entitled to receive dividends as declared by the Board of Directors of the Company, which considers payment of dividends quarterly. Upon the consummation of the acquisition of Prairie in 1996, preferential dividends were required to be paid or accrued quarterly with respect to the outstanding shares of Preferred Stock. The ability of the Company to pay dividends in the future will be primarily dependent upon its receipt of dividends from the Banks. In determining cash dividends, the Board of Directors considers the earnings, capital requirements, debt and dividend servicing requirements, financial ratio guidelines it has established, financial condition of the Company and other relevant factors. The Banks' ability to pay dividends to the Company and the Company's ability to pay dividends to its stockholders are also subject to certain regulatory restrictions.

The Company has paid regular cash dividends on the Common Stock since it commenced operations in 1982. There can be no assurance, however, that any such dividends will be paid by the Company or that such dividends will not be reduced or eliminated in the future. The timing and amount of dividends will depend upon the earnings, capital requirements and financial condition of the Company and the Banks as well as the general economic conditions and other relevant factors affecting the Company and the Banks. The Company entered into a new loan agreement in connection with the 1996 acquisition of Prairie and Country, replacing the Company's prior loan agreement. The new loan agreement contains no direct prohibitions against the payment by the Company of dividends, but indirectly restricts such dividends through the required maintenance of minimum capital ratios. In addition, the terms of the Series A Preferred Stock, and the Series B Preferred Stock issued to certain of Prairie's preferred stockholders, prohibit the payment of dividends by the Company on the Common Stock during any period for which dividends on the respective series of Preferred Stock are in arrears.

Except in connection with stock dividends and stock splits, and as described herein, the Company has not issued any securities in the past three years which were not registered for sale under the Securities Act of 1933, as amended. As partial consideration for the

acquisition of Credit Recovery, consummated on August 1, 1996, the Company issued 9,090 shares of Common Stock to the sole stockholder of Credit Recovery. As partial consideration for the acquisition of Prairie, which was consummated on August 6, 1996, the Company issued 710,576 shares of Common Stock and 2,762.24 shares of Series A Preferred Stock to the holders of shares of Prairie Common Stock, and issued 857 shares of Series B Preferred Stock to the holders of Prairie's Series A Preferred Stock electing to receive securities in lieu of cash. The Company also issued an aggregate of 19,829 shares of its Common Stock during 1997 in connection with the acquisition of minority interests of certain of the Bank Subsidiaries. Also, as partial consideration for the acquisition of the Mercier Insurance Agency, which was consummated on October 30, 1998, the Company issued 123,529 shares of Common Stock. The Company believes all of the securities issued in connection with the acquisitions of Prairie, Credit Recovery, Mercier, and minority interests in the Bank Subsidiaries were issued in transactions exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof and Regulation D promulgated thereunder.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data for the five years ended December 31, 1998, consisting of data captioned "Selected Consolidated Financial and Other Data for the Company and Subsidiaries" on page F-1 of the Company's 1998 Annual Report to Stockholders filed as an exhibit hereto is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The information beginning on page 2 of the Company's 1998 Annual Report to Stockholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" is incorporated by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to pages 9 through 12 of the Company's 1998 Annual Report to Stockholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation," which is incorporated by reference pursuant to Item 7 above.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Balance Sheets of the Company and Subsidiaries as of December 31, 1998 and the related Consolidated Statements of Income, Stockholders' Equity and Cash Flows for the year ended December 31, 1998, together with the related notes and the report of Crowe Chizek & Company LLP, independent auditors, on pages 30 to 65 of the Company's 1998 Annual Report to Stockholders filed as an exhibit hereto, is incorporated herein by reference.

The Consolidated Balance Sheets of the Company and Subsidiaries as of December 31, 1996 and the related Consolidated Statements of Income, Stockholders' Equity and Cash Flows for the year ended December 31, 1996, together with the related notes and the report of McGladrey & Pullen, LLP, independent auditors, on pages 32 to 65 of the Company's 1998 Annual Report to Stockholders filed as an exhibit hereto, is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Reference is made to the Form 8-K filed by the Company with the SEC on March 25, 1997.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information beginning on page 2 of the Company's 1999 Proxy Statement under the caption "Election of Directors" and on pages 4 through 7 of the 1999 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference. The information regarding executive officers not provided in the 1999 Proxy Statement is noted below.

EXECUTIVE OFFICERS

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the Board of Directors. In addition to the information provided in the 1999 Proxy Statement, the names and ages of the executive officers of the Company as of December 31, 1998, as well as the offices of the Company and the Subsidiaries held by these officers on that date, and principal occupations for the past five years are set forth below.

WAYNE L. BISMARK, 54, is the Executive Vice President and Chief Credit Officer of the Company. Mr. Bismark joined the Company in 1994. Prior to joining the Company, Mr. Bismark had been employed since 1983 in the Financial Institutions Division of the LaSalle National Bank in Chicago, Illinois. He is responsible for the overall performance of the Company's lending activities. Mr. Bismark has worked in the banking industry for almost 25 years, with extensive experience in lending and product sales at both the wholesale and retail levels. Mr. Bismark serves as a director of a local social service agency and is active in many civic organizations. He is also active in regional economic development associations and professional banking organizations.

CHARLES J. GRAKO, 45, has been the Executive Vice President and Chief Financial Officer of the Company since 1990. He also serves as Secretary of the Company and Assistant Secretary of UnionBank. Mr. Grako is a Certified Public Accountant and has spent the majority of his career in the banking industry. He first joined the Company as Controller in 1986.

ITEM 11. EXECUTIVE COMPENSATION

The information on pages 8 and 9 of the 1999 Proxy Statement under the caption "Executive Compensation" is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information on pages 4 through 7 of the 1999 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners" is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information on page 13 of the 1999 Proxy Statement under the caption "Transactions with Management" is incorporated by reference.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Index to Financial Statements

N/A

(a)(2) Financial Statement Schedules

N/A

(a)(3) Schedule of Exhibits

The Exhibit Index which immediately follows the signature pages to this Form 10-K is incorporated by reference.

(b) Reports on Form 8-K

The Company did not file any Current Reports on Form 8-K during the fourth quarter of 1998.

(c) Exhibits

The exhibits required to be filed with this Form 10-K are included with this Form 10-K and are located immediately following the Exhibit Index to this Form 10-K.

(d) Financial Data Schedule

Exhibit 27.1

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 24, 1999.

UnionBancorp, Inc.

By: /s/ R. SCOTT GRIGSBY	By: /s/ CHARLES J. GRAKOR.
Scott Grigsby Chairman and Principal Executive Officer	Charles J. Grako Executive Vice President and Principal Financial and Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 24, 1999.

SIGNATURE	TITLE
/s/ R. SCOTT GRIGSBY R. Scott Grigsby	Chairman of the Board, President and Chief Executive Officer
/s/ RICHARD J. BERRY Richard J. Berry	Director
/s/ WALTER E. BREIPOHL Walter E. Breipohl	Director
/s/ L. PAUL BROADUS L. Paul Broadus	Director
/s/ JOHN MICHAEL DAW John Michael Daw	Director
/s/ ROBERT J. DOTY Robert J. Doty	Director
/s/ JIMMIE D. LANSFORD Jimmie D. Lansford	Director

/s/ LAWRENCE J. MCGROGAN Lawrence J. McGrogan	Director
/s/ I. J. REINHARDT, JR. I. J. Reinhardt, Jr.	Director
/s/ H. DEAN REYNOLDS H. Dean Reynolds	Director
/s/ SCOTT C. SULLIVAN Scott C. Sullivan	Director

/s/ JOHN A. SHINKLE

John A. Shinkle   Director

/s/ JOHN A. TRAINOR

John A. Trainor   Director

/s/ CHARLES J. GRAKO

Charles J. Grako   Executive Vice President and Chief Financial and Accounting Officer

</TABLE>

UNIONBANCORP, INC.

EXHIBIT INDEX
TO
ANNUAL REPORT ON FORM 10-K

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EXHIBIT NO.	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH	SEQUENTIAL PAGE NO.
<S>	<C>	<C>	<C>	<C>
3.1	Restated Certificate of Incorporation of UnionBancorp, Inc., as amended	Incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
3.2	Bylaws of UnionBancorp, Inc.	Incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
4.1	Certificate of Designation, Preferences and Rights of Series A Convertible Preferred Stock of UnionBancorp, Inc.	Incorporated by reference from Exhibit 4.3 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
4.2	Certificate of Designation, Preferences and Rights of Series B Preferred Stock of UnionBancorp, Inc.	Incorporated by reference from Exhibit 4.4 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
4.3	Certificate of Designation, Preferences and Rights of Series C Junior Participating Preferred Stock	Incorporated by reference from Exhibit 4.5 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		

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EXHIBIT NO.	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH	SEQUENTIAL PAGE NO.
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4.4	Specimen Common Stock Certificate of UnionBancorp, Inc.	Incorporated by reference from Exhibit 4.6 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
4.5	Rights Agreement between UnionBancorp, Inc. and Harris Trust and Savings Bank, dated August 5, 1996	Incorporated by reference from Exhibit 4.7 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
10.1	Employment Agreement dated January 1, 1992, between UnionBank, UnionBancorp, Inc. and R. Scott Grigsby, as amended on October 1, 1993, April 4, 1996 and August 5, 1996	Incorporated by reference from Exhibit 10.1 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
10.2	Employment Agreement dated March 1, 1994, among UnionBank, UnionBancorp, Inc. and Wayne L. Bismark, as amended on April 4, 1996	Incorporated by reference from Exhibit 10.2 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
10.3	Employment Agreement dated January 1, 1992, between UnionBancorp, Inc. and Charles J. Grako, as amended on October 1, 1993, April 4, 1996 and August 5, 1996	Incorporated by reference from Exhibit 10.3 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
10.4	Employment Agreement dated January 1, 1992, by and among UnionBank, UnionBancorp, Inc.	Incorporated by reference from Exhibit 10.4 to the Registration Statement on Form		

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EXHIBIT NO.	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH	SEQUENTIAL PAGE NO.
<S>	<C>	<C>	<C>	<C>
	and Everett J. Solon, as amended on October 1, 1993,	S-1 filed by the Company on August 19, 1996 (SEC File No.		

	April 11, 1996 and August 5, 1996	33-9891), as amended
10.5	Employment Agreement dated June 3, 1996, between UnionBancorp, Inc. and John M. Daw	Incorporated by reference from Exhibit 10.5 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended
10.6	Employment Agreement dated March 4, 1996, between UnionBank, UnionBancorp, Inc. and Jimmie D. Lansford, as amended on April 4, 1996	Incorporated by reference from Exhibit 10.6 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended
10.7	Standstill Agreements dated August 6, 1996, between UnionBancorp, Inc. and each of Wayne W. Whalen and Dennis J. McDonnell	Incorporated by reference from Exhibit 10.9 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended
10.8	Registration Agreement dated August 6, 1996, between UnionBancorp, Inc. and each of Wayne W. Whalen and Dennis J. McDonnell	Incorporated by reference from Exhibit 10.10 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended
10.9	Loan Agreement between UnionBancorp, Inc. and LaSalle National Bank dated August 2, 1996	Incorporated by reference from Exhibit 10.11 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended

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EXHIBIT NO.	DESCRIPTION	INCORPORATED HEREIN BY REFERENCE TO	FILED HEREWITH	SEQUENTIAL PAGE NO.
<S>	<C>	<C>	<C>	<C>
10.10	UnionBancorp, Inc. Employee Stock Ownership Plan	Incorporated by reference from Exhibit 10.12 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
10.11	UnionBancorp, Inc. 1993 Stock Option Plan, as amended	Incorporated by reference from Exhibit 10.13 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (SEC File No. 33-9891), as amended		
13.1	1998 Annual Report to Stockholders (as incorporated by reference into this Form 10-K)		*	

21.1	Subsidiaries of UnionBancorp, Inc.		*
23.1	Consent of Crowe, Chizek and Company LLP		*
23.2	Consent of McGladrey & Pullen, LLP		*
27.1	Financial Data Schedule		*
99.1	1999 Proxy Statement (as incorporated by reference into this Form 10-K)	Incorporated by reference from the Schedule 14A filed by the Company on March 17, 1999 (SEC File No. 0-28846)	

</TABLE>

UNIONBANCORP, INC.
SELECTED CONSOLIDATED FINANCIAL DATA

<TABLE>
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	Years Ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars in Thousands, Except Per Share Data)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA					
Interest income	$ 47,720	$ 46,039	$ 31,037	$ 21,368	$ 18,627
Interest expense	25,258	24,435	17,003	11,249	8,706
Net interest income	22,462	21,604	14,034	10,119	9,921
Provision for loan losses	1,635	1,079	1,178	684	660
Net interest income after provision for loan losses	20,827	20,525	12,856	9,435	9,261
Noninterest income	8,071	5,182	3,222	2,570	2,283
Noninterest expense	20,733	18,764	12,248	8,771	8,247
Net income before income taxes and minority interest	8,165	6,943	3,830	3,234	3,297
Minority interest	53	73	27	--	--
Provision for income taxes	2,723	2,105	969	881	703
Net income	$ 5,389	$ 4,765	$ 2,834	$ 2,353	$ 2,594
Net income on common stock	$ 5,130	$ 4,506	$ 2,729	$ 2,353	$ 2,594
PER SHARE DATA (1)					
Basic earnings per common shares (2)	$ 1.23	$ 1.09	$ 1.00	$ 1.10	$ 1.22
Diluted earnings per common shares (2)	$ 1.22	$ 1.08	$ 0.99	$ 1.09	$ 1.21
Cash dividends on common stock	0.15	0.18	0.14	0.13	0.12
Dividend payout ratio for common stock	12.34%	12.83%	11.58%	12.06%	9.57%
Year-end book value per common share	$ 13.28	$ 12.35	$ 11.20	$ 11.01	$ 9.21
Basic weighted average common shares outstanding (2)	4,157,745	4,125,902	2,730,600	2,131,737	2,131,737
Diluted weighted average common shares outstanding (2)	4,210,739	4,167,764	2,756,806	2,165,428	2,150,073
Period-end common shares outstanding	4,262,359	4,135,830	4,114,801	2,131,737	2,131,737
BALANCE SHEET DATA					
Investments and federal funds sold	$ 176,069	$ 202,142	$ 233,822	$ 95,182	$ 86,460
Total loans	398,388	370,985	346,496	180,819	161,134
Allowance for loan losses	3,858	3,188	3,068	2,014	1,704
Total assets	627,194	625,460	642,024	303,533	272,038
Total deposits	517,638	527,747	543,744	261,727	232,334
Stockholders' equity	57,091	51,581	46,583	22,975	19,629
EARNINGS PERFORMANCE DATA					
Return on average total assets	0.84%	0.77%	0.66%	0.83%	0.98%
Return on average stockholders' equity	9.98	9.78	9.32	10.83	13.29
Return on average total assets, including mandatory redeemable preferred stock	0.84	0.77	0.66	N/A	N/A
Return on average equity, including mandatory redeemable preferred stock	9.83	9.61	9.21	N/A	N/A
Net interest margin ratio	4.01	3.95	3.72	4.12	4.38
Efficiency ratio (3)	63.49	65.29	66.70	68.35	66.17
ASSET QUALITY RATIOS					
Nonperforming assets to total assets	0.46%	0.49%	0.44%	0.95%	0.87%
Nonperforming loans to total loans	0.65	0.74	0.65	1.22	0.90
Net loan charge-offs to average loans	0.20	0.27	0.58	0.22	0.49
Allowance for loan losses to total loans	0.97	0.86	0.89	1.11	1.06
Allowance for loan losses to nonperforming loans	148.50	116.91	135.75	90.93	117.44
CAPITAL RATIOS					
Average equity to average assets	8.44%	8.00%	7.14%	7.67%	7.38%
Total capital to risk adjusted assets	12.23	11.86	10.87	12.35	12.28
Tier 1 leverage ratio	7.66	6.76	7.76	7.95	7.68

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(1) Restated to reflect the three-for-one stock split which took effect May 20, 1996.
(2) Restated in accordance with Statement of Financial Accounting Standards No. 128 which took effect December 31, 1997.
(3) Calculated as noninterest expense less amortization of intangibles and

expenses related to other real estate owned divided by the sum of net interest income before provisions for loan losses and total noninterest income excluding securities gains and losses and gain on sale of subsidiaries.

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

The following discussion provides additional information regarding the operations and financial condition of UnionBancorp, Inc. (the "Company") for the three years ended December 31, 1998. This discussion should be read in conjunction with "Selected Consolidated Financial Data," the consolidated financial statements of the Company, and the accompanying notes thereto.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report, including the Letter to the Stockholders, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1993 as amended and Section 21E of the Securities Act of 1934 as amended. The Company intends such forward- looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by the use of words "believe," "expect," "intend," "anticipate," "estimate," or "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and the subsidiaries include, but are not limited to, changes in: interest rates; general economic conditions; legislative/regulatory changes; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality and composition of the loan or securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Company's market areas; and accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

GENERAL

The Company derives substantially all of its revenues and income from the operations of its banking subsidiaries (the Banks). The Banks provide a full range of commercial and consumer banking services to businesses and individuals, primarily in north central and west central Illinois. As of December 31, 1998, the Company had total assets of $627,194,000, net loans of $394,530,000, total deposits of $517,638,000, and total stockholders' equity of $57,091,000. Total assets have increased by .3% from year-end 1997 or a $1,734,000 increase. The increase in assets is primarily related to deposit growth and the October 30, 1998 acquisition of Mercier Insurance Agency L.P. which was recorded using the purchase method of accounting (see Note 2 of the consolidated financial statements). This growth was offset by various divestitures which were

consummated during the fourth quarter of 1998. On November 30, 1998, the Company sold its 81.7% interest in Bank of Ladd, one of its subsidiary banks. At the date of sale, the Bank of Ladd had approximately $33,782,000 in total assets and $29,619,000 in total liabilities. In addition, on December 17, 1998, the Company sold a UnionBank/West branch location. At the date of sale, the branch had approximately $3,467,000 in total assets and $10,009,000 in total liabilities.

During the third quarter of 1996, the Company more than doubled its total assets, primarily through the acquisitions of Prairie Bancorp, Inc. ("Prairie") and Country Bancshares, Inc. ("Country"). The Prairie and Country acquisitions (the "Acquisitions") increased the organization to nine bank subsidiaries with 27 locations in 13 Illinois counties. In addition, during the fourth quarter of 1997, in conjunction with the reorganization and simplification of the corporate structure, the Company successfully consummated the merger of some of the affiliate banks into regional banking centers. This resulted in UnionBank, UnionBank/Central, and UnionBank/West being formed and the reduction of the organization from nine bank subsidiaries to five bank subsidiaries.

RESULTS OF OPERATIONS

NET INCOME

Net income was $5,389,000 for the year ended December 31, 1998 compared with net income of $4,765,000 for the year ended December 31, 1997, an increase of $624,000 or 13.1%. The increase in earnings per share in 1998 compared with 1997 was primarily attributed to the sustained growth in core noninterest income coupled with the continued growth in net interest income driven by the loan portfolio and the various nonrecurring transactions previously discussed.

Net income was $4,765,000 for the year ended December 31, 1997 compared with net income of $2,834,000 for the year ended December 31, 1996, an increase of $1,931,000 or 68.1%. The increase in earnings per share in 1997 compared with 1996 was primarily attributed to a full year of earnings from the banks acquired as part of the Acquisitions, which were consummated during the third quarter of 1996, and growth in the Company's loan portfolio.

NET INTEREST INCOME

Net interest income is the difference between income earned on interest-earning assets and the interest expense incurred on interest-bearing liabilities. The net yield on total interest-earning assets, also referred to as interest rate margin or net interest margin, represents net interest income divided by average interest-earning assets. The Company's principal interest-earning assets are loans, securities, and federal funds sold.

Net interest income was $22,462,000 for 1998, an increase of $858,000 or 4.0%, compared with net interest income of $21,604,000 for 1997. The Company's average total interest-earning assets increased from $571,626,000 for 1997 to $590,008,000 for 1998 representing a 3.2% increase resulting primarily from the growth attributed to efforts to increase market share during 1998. The net interest margin (tax equivalent basis) increased to 4.01% at December 31, 1998 from

3.95% at December 31, 1997. The interest rates on average earning assets (tax equivalent basis) increased to 8.29% in 1998 from 8.22% in 1997, while rates on average interest-bearing liabilities increased to 4.87% in 1998 from 4.83% in 1997.

Net interest income was $21,604,000 for 1997, an increase of $7,570,000 or 53.9%, compared with net interest income of $14,034,000 for 1996. The Company's average total interest-earning assets increased from $399,328,000 for 1996 to $571,626,000 for 1997 representing a 43.2% increase resulting primarily from the growth attributed to the Acquisitions during 1996. The net interest margin (tax equivalent basis) increased to 3.95% at December 31, 1997 from 3.72% at December 31, 1996. The interest rates on average earning assets (tax equivalent basis) increased to 8.22% in 1997 from 7.98% in 1996, while rates on average interest-bearing liabilities remained relatively unchanged by increasing to 4.83% in 1997 from 4.80% in 1996. The increase in the yield on average earning assets was primarily driven by a change in the asset mix of the earning assets by shifting the emphasis toward loans which have a higher yield than securities. The nominal increase in the average rates paid on interest-bearing liabilities primarily resulted from increases in the interest rates on time deposits reflecting pressures in the marketplace for deposits.

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 for the years ended December 31, 1998, 1997, and 1996. 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.

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	For the Years Ended December 31,	
	1998	1997

	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS						
INTEREST-EARNING ASSETS						
Interest-earning deposits	$ 1,568	$ 142	9.06%	$ 353	$ 28	7.93%
Securities (1)						
Taxable	149,807	9,016	6.02%	173,190	10,838	6.26%
Nontaxable (2)	42,131	3,225	7.65%	32,618	2,566	7.87%
Total securities (tax equivalent)	191,938	12,241	6.38%	205,808	13,404	6.51%
Federal funds sold	5,942	333	5.60%	6,845	381	5.56%
Loans (3)(4)						
Commercial	109,685	10,377	9.46%	97,407	9,274	9.52%
Real estate	239,780	20,632	8.60%	216,911	18,693	8.62%
Installment and other	41,095	3,892	9.47%	44,302	4,124	9.31%
Fees on loans	--	1,276	--%	--	1,092	--
Net loans (tax equivalent)	390,560	36,177	9.26%	358,620	33,183	9.25%
Total interest-earning assets	590,008	48,893	8.29%	571,626	46,996	8.22%
NON-INTEREST-EARNING ASSETS						
Cash and cash equivalents	17,436			17,248		
Premises and equipment, net	14,680			14,397		
Other assets	17,208			16,245		
Total non-interest-earning assets	49,324			47,890		
Total assets	$639,332			$619,516		
LIABILITIES AND STOCKHOLDERS' EQUITY						
INTEREST-BEARING LIABILITIES						
NOW accounts	$ 56,668	1,353	2.39%	$ 55,883	1,396	2.50%
Money market accounts	29,300	1,040	3.55%	31,433	1,028	3.27%
Savings deposits	61,740	1,848	2.99%	62,316	1,758	2.82%
Time $100,000 and over	106,187	5,809	5.47%	81,612	4,622	5.66%
Other time deposits	215,478	12,288	5.70%	231,766	12,860	5.55%
Federal funds purchased and repurchase agreements	16,773	953	5.68%	20,683	1,171	5.66%
Advances from FHLB	21,727	1,226	5.64%	8,783	543	6.18%
Notes payable	11,024	741	6.72%	13,247	1,057	7.98%
Total interest-bearing liabilities	518,897	25,258	4.87%	505,723	24,435	4.83%
NON-INTEREST-BEARING LIABILITIES						
Non-interest-bearing deposits	59,885			57,623		
Other liabilities	6,569			6,596		
Stockholders' equity	53,981			49,574		
Total liabilities and stockholders' equity	$639,332			$619,516		
Net interest income (tax equivalent)		$ 23,635			$22,561	
Net interest income (tax equivalent) to total earning assets			4.01%			3.95%
Interest-bearing liabilities to earning assets	87.95%			88.47		

</TABLE>

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1996		
	Average Balance	Interest Income/ Expense	Average Rate
<S>	<C>	<C>	<C>
ASSETS			
INTEREST-EARNING ASSETS			

Interest-earning deposits	$ 66	$ 4	6.06%
Securities (1)			
Taxable	122,653	7,316	5.96%
Nontaxable (2)	26,994	2,051	7.60%
Total securities (tax equivalent)	149,647	9,367	6.26%
Federal funds sold	5,637	298	5.29%
Loans (3)(4)			
Commercial	72,210	6,793	9.41%
Real estate	138,721	11,684	8.42%
Installment and other	33,047	3,062	9.27%
Fees on loans	--	641	--
Net loans (tax equivalent)	243,978	22,180	9.09%
Total interest-earning assets	399,328	31,849	7.98%
NON-INTEREST-EARNING ASSETS			
Cash and cash equivalents	14,430		
Premises and equipment, net	9,261		
Other assets	7,674		
Total non-interest-earning assets	31,365		
Total assets	$ 430,693		
LIABILITIES AND STOCKHOLDERS' EQUITY			
INTEREST-BEARING LIABILITIES			
NOW accounts	$ 40,755	$ 1,055	2.59%
Money market accounts	25,333	804	3.17%
Savings deposits	41,664	1,224	2.94%
Time $100,000 and over	22,955	1,433	6.24%
Other time deposits	194,957	10,723	5.50%
Federal funds purchased and repurchase agreements	16,388	861	5.25%
Advances from FHLB	3,427	213	6.21%
Notes payable	8,364	690	8.25%
Total interest-bearing liabilities	353,843	17,003	4.80%
NON-INTEREST-BEARING LIABILITIES			
Non-interest-bearing deposits	41,395		
Other liabilities	4,693		
Total non-interest-bearing liabilities	46,088		
Stockholders' equity	30,762		
Total liabilities and stockholders' equity	$ 430,693		
Net interest income (tax equivalent)		$14,846	
Net interest income (tax equivalent) to total earning assets			3.72%
Interest-bearing liabilities to earning assets	88.61%		

</TABLE>

---

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

The Company'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. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

RATE/VOLUME ANALYSIS OF
NET INTEREST INCOME
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	For the Years Ended December 31,					
	1998 Compared to 1997			1997 Compared to 1996		
	Change Due to			Change Due to		
<S>	Volume <C>	Rate <C>	Net <C>	Volume <C>	Rate <C>	Net <C>
INTEREST INCOME:						
Interest-earning deposits	$ 109	$ 5	$ 114	$ 23	$ 1	$ 24
Investment securities:						
Taxable	(1,437)	(385)	(1,822)	3,147	375	3,522
Non-taxable	732	(73)	659	440	75	515
Federal funds sold	(50)	2	(48)	67	16	83
Loans	2,958	36	2,994	10,829	174	11,003
Total interest income	2,312	(415)	1,897	14,506	641	15,147
INTEREST EXPENSE:						
NOW accounts	19	(62)	(43)	379	(38)	341
Money market accounts	(73)	85	12	199	25	224
Savings deposits	(16)	106	90	584	(50)	534
Time, $100,000 and over	1,347	(160)	1,187	3,334	(145)	3,189
Other time	(915)	343	(572)	2,042	95	2,137
Federal funds purchased and repurchase agreements	(222)	4	(218)	239	71	310
Advances from FHLB	734	(51)	683	331	(1)	330
Notes payable	(213)	(103)	(316)	391	(24)	367
Total interest expense	661	162	823	7,499	(67)	7,432
Net interest margin	$ 1,651	$(577)	$ 1,074	$ 7,007	$ 708	$ 7,715

</TABLE>

PROVISION FOR LOAN LOSSES

The amount of the provision for loan losses is based on monthly evaluations of the loan portfolio, with particular attention directed toward nonperforming 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 and other nonperforming loans, historical loss experience, results of examinations by regulatory agencies, an internal asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guaranties, concentrations of credits, and other factors.

The 1998 provision for loan losses was $1,635,000 compared with $1,079,000 in 1997. Net charge-offs in 1998 were approximately $789,000. The provision for loan losses of $1,635,000 was made to bring the allowance for loan losses to the level management deemed adequate as of December 31, 1998.

The 1997 provision for loan losses was $1,079,000 compared with $1,178,000 in 1996. Net charge-offs in 1997 were approximately $959,000. The provision for loan losses of $1,079,000 was made to bring the allowance for loan losses to the level management deemed adequate as of December 31, 1997.

NONINTEREST INCOME

The following table shows the Company's noninterest income:

NONINTEREST INCOME
(DOLLARS IN THOUSANDS)

<TABLE>

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
	Years Ended December 31,		
Service charges	$2,251	$1,854	$1,286
Merchant fee income	833	670	524
Trust income	590	516	393
Mortgage banking operations	1,518	751	425
Securities gains, net	56	193	20
Insurance commissions and fees	317	--	--
Gain on sale of subsidiaries, net	820	--	--
Other noninterest income	1,686	1,198	574
Total noninterest income	$8,071	$5,182	$3,222

</TABLE>

Noninterest income totaled $8,071,000 for the year ended December 31, 1998, as compared to $5,182,000 for the same timeframe in 1997. Exclusive of net security gains, which totaled $56,000 during 1998 as compared to net securities gains of $193,000 in 1997, noninterest income increased by $3,026,000 or a 60.7% improvement. All categories of operating income contributed to the increase with the majority of the increase related to the growth in mortgage banking income, service charge income, and insurance commissions along with the $820,000 net gain relating to the divestitures recorded during the year. Specifically, mortgage banking income increased $767,000 during the year due to gains on sales of loans, which was the result of increased loan originations due to refinancings because of lower interest rates. These operations increased by over 102% from the prior year as the Company originated and sold in excess of $100 million of loans during the year. This growth was due to the low interest rate environment and aggressive sales force. Service charges on deposit accounts, one of the major components of noninterest income, consist of fees on both interest-bearing and non-interest-bearing deposit accounts as well as charges for items such as insufficient funds, overdrafts, and

stop payment requests. The increase in service charge income to $2,251,000 for the year ended December 31, 1998 from $1,854,000 for the year ended December 31, 1997 was related to increases in deposit account balances and increases in the service charge schedule during 1998.

Noninterest income for 1997 was $5,182,000, an increase of $1,960,000 or 60.8% compared with $3,222,000 for 1996. These increases were primarily from internal deposit growth including the purchase of the deposits of additional bank subsidiaries during the third quarter of 1996 and the increased number and balance of non-interest and interest-bearing accounts. Specifically, service charges increased on demand deposit accounts, the largest component of non-interest-bearing deposit accounts, and charges grew for items such as insufficient funds and overdrafts, primarily on transactional deposit products such as demand, NOW, and money market accounts. The increase in service charge income to $1,854,000 for the year ended December 31, 1997 from $1,286,000 for the year ended December 31, 1996 was related to increases in deposit account balances and increases in the service charge schedule during 1997.

The Company, through its wholly owned subsidiary UnionTrust Corporation, provides trust services to its customers by acting as executor, administrator, trustee, or agent and in various other fiduciary capacities for client accounts. Total assets under management at December 31, 1998 and 1997 were approximately $143,574,000 and $110,641,000, respectively. Trust income, which is predominately comprised of assessed fees based on the market value of managed client portfolios, increased by $74,000 during 1998 and $123,000 during 1997.

In 1998, the Company acquired Mercier Insurance Agency L.P. The insurance agency provides a full range of insurance and brokerage services to its customers. The $317,000 in income is attributable to policies sold and brokerage services provided.

NONINTEREST EXPENSE

The following table shows the Company's noninterest expense:

NONINTEREST EXPENSE
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996

<S> <C> <C> <C>

Salaries and employee benefits	$10,557	$ 9,231	$ 6,469
Occupancy expense, net	1,520	1,532	899
Furniture and equipment expenses	1,788	1,599	977
Supplies and printing	563	602	395
Telephone	576	472	277
Amortization of intangible assets	940	903	392
Other noninterest expense	4,789	4,425	2,839
Total noninterest expense	$20,733	$18,764	$12,248

</TABLE>

Noninterest expense was $20,733,000 in 1998, an increase of $1,969,000 or 10.5% compared with noninterest expense of $18,764,000 for 1997. The increase was reflected in several categories of noninterest expense. The increase in salaries and employee benefits accounted for a majority of the increase and primarily was directly related to merit increases along with incentive payments relating to the mortgage banking operations. The increase in furniture and equipment expenses was largely related to the standardization of computer equipment in 1997 for the acquired entities. The increase in the other expense category was primarily associated with consulting fees, of which a significant portion of the expense was related to outsourcing the internal audit function, beginning in the second quarter of 1998. This increase was offset by a reduced increase in salaries and employee benefits as the Company reallocated the internal audit department to assist in other areas, coupled by the cost associated with the acquisition and divestitures recorded during the year.

Noninterest expense was $18,764,000 in 1997; an increase of $6,516,000 or 53.2% compared with $12,248,000 for 1996. The increase during 1997 was reflected in all categories of noninterest expense. The increases were primarily the result of a full year of incremental costs linked to the acquired subsidiaries.

INCOME TAXES

The Company recorded income tax expense of $2,723,000, $2,105,000, and $969,000 for the years ended December 31, 1998, 1997, and 1996, respectively, and effective tax rates were 33.6%, 30.6%, and 25.5%, respectively, for such periods. The Company's effective tax rate is lower than statutory rates because the Company derives interest income from municipal securities, which are exempt from federal tax.

PREFERRED STOCK DIVIDENDS

The Company paid $259,000 of preferred stock dividends in 1998 and 1997 as compared to $105,000 paid in 1996. The reason for this increase was the preferred stock being outstanding for the entire year in 1998 and 1997, as compared to only a portion of 1996.

INTEREST RATE SENSITIVITY MANAGEMENT

The business of the Company 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 the Company 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 the Banks depend, to a substantial extent, on "rate differentials," i.e., the differences between the income the Banks receive 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 the Banks, including general economic conditions and the policies of various governmental and regulatory authorities.

The objective of monitoring and managing the interest rate risk position of the balance sheet is to contribute to earnings and to minimize fluctuations in net interest income. The potential for earnings to be affected by changes in interest rates is inherent in a financial institution. Interest rate sensitivity is the relationship between changes in market interest rates and changes in net interest income due to the repricing characteristics of assets and liabilities. An asset sensitive position in a given period will result in more assets being subject to repricing; therefore, as interest rates rise, such a position will have a positive effect on net interest income. Conversely, in a liability sensitive position, where liabilities reprice more quickly than assets in a given period, a rise in interest rates will have an adverse effect on net interest income. The Company's exposure to interest rate risk is managed primarily through the Company's strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities which generate favorable earnings, while limiting the potential negative effects of changes in market interest rates. Since the Company's primary source of interest-bearing liabilities is customer deposits, the Company's ability to manage the types and terms of such deposits may be somewhat limited by customer maturity preferences in the market areas in which the Company operates. The rates, terms, and interest rate indices of the Company's interest-earning assets result primarily from the Company's strategy of investing in loans and securities (a substantial portion of which have adjustable rate terms) which permit the Company to limit its exposure to interest rate risk, together with credit risk, while at the same time achieving a positive interest rate spread.

One method of analyzing interest rate risk is to evaluate the balance of the Company's interest rate sensitivity position. A mix of assets and liabilities that are roughly equal in volume, term, and repricing represents a matched interest rate sensitivity position. Any excess of assets or liabilities in a particular period results in an interest rate sensitivity gap. The following table presents the interest rate sensitivity for the Company's interest-earning assets and interest-bearing liabilities at December 31, 1998. The table was prepared assuming loans prepay at varying degrees, based on type, maturity, and rate. All of the NOW accounts, money market accounts, and savings accounts reprice in three months or less, and certificates of deposit have been included based on contractual maturity.

INTEREST RATE SENSITIVE ASSETS AND LIABILITIES
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	December 31, 1998					
	3 Months or Less	3 Months to 6 Months	6 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS						
Interest-bearing balances	$ 1,834	$ --	$ --	$ --	$ --	$ 1,834
Federal funds sold	450	--	--	--	--	450
Securities	63,612	4,688	31,432	34,234	41,653	175,619
Loans	108,974	37,760	49,232	158,783	43,639	398,388
Total interest-earning assets	$ 174,870	$ 42,448	$ 80,664	$193,017	$85,292	$576,291
INTEREST-BEARING LIABILITIES						
NOW accounts	$ 55,742	$ --	$ --	$ --	$ --	$ 55,742
Money market accounts	31,934	--	--	--	--	31,934
Savings	57,185	--	--	--	--	57,185
Time, $100,000 and over	42,264	26,056	30,033	33,882	--	132,235
Other time	44,828	23,694	56,311	48,203	279	173,315
Total interest-bearing deposits	231,953	49,750	86,344	82,085	279	450,411
Federal funds and repurchase agreements	10,068	2,128	1,673	986	--	14,855
Advances from FHLB	--	4,500	1,000	13,408	4,300	23,208
Notes payable	7,000	--	--	--	--	7,000
Total interest-bearing liabilities	$ 249,021	$ 56,378	$ 89,017	$ 96,479	$ 4,579	$495,474
Period interest sensitivity gap	$ (74,151)	$(13,930)	$ (8,353)	$ 96,538	$80,713	$ 80,817
Cumulative interest sensitivity gap	(74,151)	(88,081)	(96,434)	104	80,817	
Cumulative gap as a percent of total assets	11.46%	13.61%	14.90%	0.01%	12.47%	
Cumulative interest-sensitive assets as a percent of cumulative interest-sensitive liabilities	70.22%	71.16%	75.55%	100.00%	116.29%	

</TABLE>

The Company undertakes this interest rate sensitivity analysis to monitor the potential risk to future earnings from the impact of possible future changes in interest rates on currently existing net asset or net liability positions. However, this type of analysis is as of a point-in-time, when in fact, the Company's interest rate sensitivity can quickly change as market conditions, customer needs, and management strategies change. Thus, interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Pursuant to its investment policy, the Company does not purchase off-balance-sheet derivative financial instruments.

The preceding table does not necessarily indicate the impact of general interest rate movements on the Company's net interest income because the repricing of certain assets and liabilities is discretionary and is subject to competitive and other pressures. As of December 31, 1998, the Banks held approximately $31,111,000 (at amortized cost) in mortgage-backed securities. Although the mortgage-backed securities have various stated maturities, it is not uncommon for mortgage-backed securities to prepay outstanding principal prior to stated maturities. As a result, assets and liabilities indicated as repricing within the same period may, in fact, reprice at different times and at different rate levels.

In addition to the aforementioned interest rate sensitivity analysis, the Company also 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 1.0% to 2.0% increase or decrease in market interest rates. The assumption in this table is that liabilities will reprice faster than assets due to market constraints and management's assessment of their assets and liabilities. The tables below present the Company's projected changes in net interest income for 1998 and 1997 for the various rate shock levels.

<TABLE>
<CAPTION>

December 31, 1998	Net Interest Income		
	Amount	Change	Change
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
+200 bp	$ 20,811	$ (652)	(3.04)%
+100 bp	21,155	(308)	(1.43)
Base	21,463	-	-
-100 bp	21,542	80	.37
-200 bp	20,882	(580)	(2.70)

</TABLE>

Based upon the Company's model at December 31, 1998, the effect of an immediate 200 basis point increase in interest rates would decrease the Company's net interest income by 3.04% or approximately $652,000. The effect of an immediate 200 basis point decrease in rates would reduce the Company's net interest income by 2.70% or approximately $580,000. The reason for this is even though the preceding table shows the Company as having a negative gap, certain core deposits may not reprice when rates decrease depending on market conditions. This causes the decline in net interest income.

<TABLE>
<CAPTION>

December 31, 1997	Net Interest Income		
	Amount	Change	Change
	(Dollars in Thousands)		
<S>	<C>	<C>	<C>
+200 bp	$ 19,362	$ 412	2.17%
+100 bp	19,178	228	1.20
Base	18,950	-	-
-100 bp	18,501	(449)	(2.37)
-200 bp	17,254	(1,696)	(8.95)

</TABLE>

Based upon the Company's model at December 31, 1997, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by 2.17% or approximately $412,000. The effect of an immediate 200 basis point decrease in rates would reduce the Company's net interest income by 8.95% or approximately $1,696,000.

FINANCIAL CONDITION

LOANS AND ASSET QUALITY

The Company's loans are diversified by borrower and industry group. Loan growth has occurred every year over the past five years and can be attributed to increased loan demand, to the addition of new loan products, and to the Acquisitions. The growth in the loan portfolio in 1998 is primarily due to management's restructuring of the balance sheet to increase the net interest margin. The following table describes the composition of loans by major categories outstanding.

LOAN PORTFOLIO
(DOLLARS IN THOUSANDS)

	Aggregate Principal Amount				
	December 31,				
	1998	1997	1996	1995	1994
Commercial	$ 74,481	$ 62,936	$ 60,152	$ 38,298	$ 36,802
Agricultural	41,821	39,431	43,500	17,079	14,391
Real estate:					
Commercial mortgages	99,872	72,730	63,254	44,393	36,727
Construction	13,935	14,393	13,549	7,437	5,047
Agricultural	35,790	27,955	29,185	10,229	12,169
1-4 family mortgages	96,921	109,411	91,697	36,637	33,623
Installment	32,714	41,210	42,320	24,072	19,765
Other	2,884	3,076	3,354	2,681	2,641
	398,418	371,142	347,011	180,826	161,165
Unearned income	(30)	(157)	(515)	(7)	(31)
Total loans	398,388	370,985	346,496	180,819	161,134
Allowance for loan losses	(3,858)	(3,188)	(3,068)	(2,014)	(1,704)
Loans, net	$ 394,530	$ 367,797	$ 343,428	$ 178,805	$ 159,430

	Aggregate Principal Amount				
	December 31,				
	1998	1997	1996	1995	1994
	Percentage of Total Loan Portfolio				
Commercial	18.69%	16.96%	17.33%	21.18%	22.84%
Agricultural	10.50	10.62	12.54	9.45	8.93
Real estate:					
Commercial mortgages	25.07	19.60	18.23	24.55	22.79
Construction	3.50	3.88	3.90	4.11	3.13
Agricultural	8.98	7.53	8.41	5.66	7.55
1-4 family mortgages	24.33	29.48	26.42	20.26	20.86
Installment	8.21	11.10	12.20	13.31	12.26
Other loans	.72	0.83	0.97	1.48	1.64
Gross loans	100.00%	100.00%	100.00%	100.00%	100.00%

As of December 31, 1998 and 1997, commitments of the Banks under standby letters of credit and unused lines of credit totaled approximately $92,893 and $72,980, respectively.

Stated loan maturities (including rate loans reset to market interest rates) of the total loan portfolio, net of unearned income, at December 31, 1998 were as follows:

STATED LOAN MATURITIES (1)
(DOLLARS IN THOUSANDS)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
Commercial	$ 41,582	$ 23,647	$ 9,252	$ 74,481
Agricultural	30,844	9,538	1,439	41,821

Real estate	56,786	69,352	120,380	246,518
Installment	11,005	22,886	1,677	35,568
Total	$140,217	$125,423	$132,748	$398,388

----
(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, 1998 were as follows:

LOAN REPRICING
(DOLLARS IN THOUSANDS)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
Fixed rate	$ 97,494	$ 70,417	$ 30,360	$198,271
Variable rate	98,059	88,083	12,488	198,630
Impaired and not accruing and nonaccrual	412	284	791	1,487
Total	$195,965	$158,784	$ 43,639	$398,388

NONPERFORMING ASSETS

The Company'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 the Company 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.

The Company defines impaired loans to include all commercial loans and mortgage loans secured by commercial properties or five-plus family residences that are in nonaccrual status or were restructured after January 1, 1995.

Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions. The following table summarizes nonperforming assets by category.

NONPERFORMING ASSETS
(DOLLARS IN THOUSANDS)

	December 31,				
	1998	1997	1996	1995	1994
Nonaccrual and impaired loans not accruing	$1,487	$1,714	$1,774	$1,127	$ 891
Impaired and other loans 90 days past due and still accruing interest	1,111	1,013	486	1,088	560
Total nonperforming loans	2,598	2,727	2,260	2,215	1,451
Other real estate owned	201	215	363	441	672

Other nonperforming assets (1)	100	100	192	240	240
Total nonperforming assets	$2,899	$3,042	$2,815	$2,896	$2,363
Nonperforming loans to total loans	0.65%	0.74%	0.65%	1.22%	0.90%
Nonperforming assets to total loans	0.73	0.82	0.81	1.60	1.47
Nonperforming assets to total assets	0.46	0.49	0.44	0.95	0.87

</TABLE>

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(1) Represents a single municipal security in default status.

The classification of a loan as impaired or nonaccrual does not necessarily indicate that the principal is uncollectible, in whole or in part. The Banks make a determination as to collectibility on a case-by-case basis. The Banks consider both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect impaired or 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 impaired or nonaccrual loans are foreclosure, collection under guarantees, loan restructuring, or judicial collection actions.

Each of the Company'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. Management is not aware of any material loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have been excluded from classification under nonperforming assets or impaired loans. Management further believes that credits classified as nonperforming assets or impaired loans include any material loans as to which any doubts exist as to their collectibility in accordance with the contractual terms of the loan agreement.

During 1997, the Company implemented a loan review function which is separate from the lending function and is responsible for the review of new and existing loans. Potential problem credits are monitored by the loan review function and are submitted for review to the loan committee and audit committee members.

Under Statement of Financial Accounting Standards No. 114 and No. 118, the Company defined loans that will be individually evaluated for impairment to include commercial loans and mortgages secured by commercial properties or five-plus family residences. All other smaller balance homogeneous loans are evaluated for impairment in total.

The following table sets forth a summary of other real estate owned and other collateral acquired at December 31, 1998:

OTHER REAL ESTATE OWNED
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	Number of Parcels <C>	Net Book Carrying Value <C>
Developed property	5	$183
Vacant land or unsold lots	1	18
Total real estate	6	$201

</TABLE>

ALLOWANCE FOR LOAN LOSSES

In originating loans, the Company 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 loan. The allowance for loan losses represents the Company's estimate of the allowance necessary to provide for possible losses in the loan portfolio. In making this determination, the Company analyzes the ultimate collectibility of the loans in its portfolio, incorporating feedback provided by internal loan staff, the loan review function, and information provided by examinations performed by regulatory agencies. The Company makes an ongoing evaluation as to the adequacy of the allowance for loan losses. On a monthly basis, management of each of the subsidiary banks meets to review the adequacy of the allowance for loan losses. Commercial credits are graded by the loan officers and the Company's Loan Review Officer validates the officers' grades. In the event that the Loan Review Officer 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. The analysis of the allowance for loan losses is comprised of three components: specific credit allocation, general portfolio allocation, and subjective determined allocation. Once these three components of the allowance are calculated, management calculates a historical component for each loan category based on the past five years of loan history and the Company's evaluation of qualitative factors including future economic and industry outlooks. The unallocated portion of the allowance is determined based on current economic conditions and trends in the portfolio including delinquencies and impairments, as well as changes in the composition of the portfolio. Commitments to extend credit and standby letters of credit are reviewed to determine whether credit risk exists. The determination by the Company of the appropriate level of its allowance for loan losses was $3,858,000 at December 31, 1998.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed monthly, 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 did not significantly change in 1998. There was a slight shift in the composition of the real estate loan portfolio from 1-4 family mortgage loans to commercial real estate loans. The methodology used to determine the adequacy of the allowance for loan losses is consistent with prior years and there were no reallocations. Despite the decrease in nonperforming loans and net charge-offs in 1998, the Company increased the provision for loan losses in 1998 in order to maintain the allowance for loan losses at a level deemed appropriate by management due to the growth in the loan portfolio and the slight shift in the composition of the portfolio. The following table presents a detailed analysis of the Company's allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Beginning balance	$ 3,188	$ 3,068	$ 2,014	$ 1,704	$ 1,787
Charge-offs:					
Commercial	428	262	967	114	413
Real estate mortgages	169	386	181	173	371
Installment and other loans	435	559	366	250	240
Total charge-offs	1,032	1,207	1,514	537	1,024
Recoveries:					
Commercial	98	47	41	70	142
Real estate mortgages	37	88	--	56	83
Installment and other loans	108	113	57	37	56
Total recoveries	243	248	98	163	281
Net charge-offs	789	959	1,416	374	743
Provision for loan losses	1,635	1,079	1,178	684	660
Allowance associated with the Acquisitions (divestitures)	(176)	--	1,292	--	--
Ending balance	$ 3,858	$ 3,188	$ 3,068	$ 2,014	$ 1,704

Period end total loans, net of unearned interest	$ 398,388	$370,985	$346,496	$180,819	$161,134
Average loans	$ 390,560	$358,620	$243,978	$173,004	$152,186
Ratio of net charge-offs to average loans	0.20%	0.27%	0.58%	0.22%	0.49%
Ratio of provision for loan losses to average loans	0.42	0.30	0.48	0.40	0.43
Ratio of allowance for loan losses to ending total loans	0.97	0.86	0.89	1.11	1.06
Ratio of allowance for loan losses to total nonperforming loans	148.99	116.91	135.75	90.93	117.44
Ratio of allowance at end of period to average loans	0.99	0.89	1.26	1.16	1.12

</TABLE>

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
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	December 31,									
	1998		1997		1996		1995		1994	
	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
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$1,213	29.19%	$ 962	27.58%	$ 776	29.87%	$ 800	30.62%	327	31.76%
Real estate	1,245	61.87	1,052	60.49	758	56.97	388	54.59	325	54.34
Installment and other loans	443	8.94	482	11.93	517	13.16	235	14.79	194	13.90
Unallocated	957	--	692	--	1,017	--	591	--	858	--
Total	$3,858	100.00%	$3,188	100.00%	$3,068	100.00%	$2,014	100.00%	$1,704	100.00%

</TABLE>

SECURITIES ACTIVITIES

The Company's securities portfolio, which represented 30.5% of the Company's earning asset base as of December 31, 1998, is managed to minimize interest rate risk, maintain sufficient liquidity, and maximize return. Investment securities which are classified as held-to-maturity are purchased with the intention to hold them to maturity. Securities classified as held-to-maturity are carried at historical cost. The Company's financial planning anticipates income streams based on normal maturity and reinvestment. Securities classified as available-for-sale are purchased with the intent to provide liquidity and to increase returns. The securities classified as available-for-sale are carried at fair value. The Company does not have any securities classified as trading.

Securities held-to-maturity, carried at amortized cost, were $41,847,000 at December 31, 1998 compared to $37,170,000 at December 31, 1997. The fair value of securities held-to-maturity was $43,073,000 at December 31, 1998 and $37,840,000 at December 31, 1997.

Securities available-for-sale, carried at fair value, were $133,772,000 at December 31, 1998 compared to $163,568,000 at December 31, 1997.

The consolidated securities portfolio includes several callable agency debentures, adjustable rate mortgage pass-throughs, and collateralized mortgage obligations with implied calls. The exposure of capital to market valuation adjustments existing at the time of the Prairie acquisition has been reduced by the reduction in relative size of the portfolio, the shortening of the average life of the securities by the passage of time, and the sale of floating rate securities with lower lifetime caps or reset limits. In addition, some of the callable securities that have been purchased have shorter final maturities which also reduces the sensitivity of the Economic Value of Equity (EVE) to changes in the level of interest rates.

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

SECURITIES PORTFOLIO
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	December 31,					
	1998		1997		1996	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Held-to-Maturity						
States and political subdivisions	$ 41,847	23.83%	$ 37,170	18.52%	$ 35,017	15.66%
Total	$ 41,847	23.83%	$ 37,170	18.52%	$ 35,017	15.66%
AVAILABLE-FOR-SALE						
U.S. Treasury	$ 6,891	3.92%	$ 19,163	9.55%	$ 26,518	11.86%
U.S. government agencies and corporations	49,330	28.09	59,315	29.54	53,554	23.96
U.S. government agency mortgage backed securities	31,005	17.66	22,695	11.31	49,454	22.12
Collateralized mortgage obligations	43,208	24.60	58,300	29.04	58,820	26.31
Corporate bonds	100	.06	100	0.05	192	0.09
Other securities	3,238	1.84	3,995	1.99	--	--
Total	$133,772	76.17%	$163,568	81.48%	$188,538	84.34%

</TABLE>

The following table sets forth the contractual, callable or estimated maturities and yields of the securities portfolio as of December 31, 1998. Mortgage backed and collateralized mortgage obligation securities are included at estimated maturity.

MATURITY REPRICING SCHEDULE
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	Maturing or Repricing								
	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
HELD-TO-MATURITY									
States and political subdivisions (1)	$ 5,701	7.21%	$14,702	7.07%	$ 20,379	6.76%	$ 1,065	7.11%	$ 41,847
AVAILABLE-FOR-SALE									
U.S. Treasury	$ 253	6.15%	$ 6,638	5.91%	$ --	-%	$ --	-%	$ 6,891
U.S. government agencies and corporations	37,911	6.00	11,419	6.19	--	--	--	--	49,330
U.S. government agency mortgage backed securities	9,590	5.16	1,206	5.76	7,975	5.91	12,234	5.91	31,005
Collateralized mortgage obligations	43,039	4.91	169	8.03	--	--	--	--	43,208
Corporate bonds	--	--	100	--	--	--	--	--	100

Equity securities	3,238	--	--	--	--	--	--	--	3,238
Total	$94,031		$ 19,532		$ 7,975		$ 12,234		$133,772

</TABLE>

----
(1) Rates on obligations of states and political subdivisions have been adjusted to tax equivalent yields using a 34% income tax rate

DEPOSIT ACTIVITIES

Deposits are attracted through the offering of a broad variety of deposit instruments, including checking accounts, money market accounts, regular savings accounts, term certificate accounts (including "jumbo" certificates in denominations of $100,000 or more), and retirement savings plans. The Company's average balance of total deposits was $529,258,000 for 1998, representing an increase of $8,625,000 or 1.7% compared with the average balance of total deposits for the year ended December 31, 1997. The increase in deposits was primarily due to the growth attributed to efforts to increase market share in 1998, which help offset the Bank of Ladd and UnionBank/West branch divestitures.

The following table sets forth certain information regarding the Banks' average deposits.

AVERAGE DEPOSITS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	For the Years Ended December 31,								
	1998			1997			1996		
	Average Amount	% of Total	Average Rate Paid	Average Amount	% of Total	Average Rate Paid	Average Amount	% of Total	Average Rate Paid
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Non-interest-bearing demand deposits	$ 59,885	11.32%	--%	$ 57,623	11.07%	--%	$ 41,395	11.28%	--%
Savings accounts	61,740	11.67	2.99	62,316	11.97	2.82	41,664	11.35	2.94
Interest-bearing demand deposits	85,968	16.24	2.78	87,316	16.77	2.78	66,088	18.00	2.84
Time, less than $100,000	215,478	40.71	5.47	231,766	44.51	5.55	194,957	53.12	5.51
Time, $100,000 or more	106,187	20.06	5.70	81,612	15.68	5.66	22,955	6.25	6.24
Total deposits	$529,258	100.00%	4.22%	$520,633	100.00%	4.16%	$367,059	100.00%	4.16%

</TABLE>

As of December 31, 1998, non-brokered time deposits over $100,000 represented 25.5% of total deposits, compared with 15.2% of total deposits as of December 31, 1997. The Banks do not have and do not solicit brokered deposits.

The following table sets forth the remaining maturities for time deposits of $100,000 or more at December 31, 1998.

TIME DEPOSITS OF $100,000 OR MORE
(DOLLARS IN THOUSANDS)

MATURITY RANGE

<TABLE>

<S>	<C>
Three months or less	$ 42,264
Over three months through six months	26,056
Over six months through twelve months	30,033
Over twelve months	33,882
Total	$132,235

</TABLE>

RETURN ON EQUITY AND ASSETS

The following table presents various ratios for the Company.

RETURN ON EQUITY AND ASSETS

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Return on average assets	.84%	0.77%	0.66%
Return on average equity	9.98	9.78	9.32
Average equity to average assets	8.44	8.00	7.14
Dividend payout ratio for common stock	12.34	12.83	11.58

</TABLE>

The increase in the return on average assets and return on average equity ratios is primarily related to increased profitability caused by the sustained growth in core noninterest income, coupled with the continued growth in net interest income driven by the loan portfolio, and various nonrecurring transactions.

LIQUIDITY

The Company manages its liquidity position with the objective of maintaining sufficient funds to respond to the needs of depositors and borrowers and to take advantage of earnings enhancement opportunities. In addition to the normal inflow of funds from core-deposit growth together with repayments and maturities of loans and investments, the Company utilizes other short-term funding sources such as securities sold under agreements to repurchase, overnight federal funds purchased from correspondent banks, and the acceptance of short-term deposits from public entities and Federal Home Loan Bank advances.

The Company monitors and manages its liquidity position on several bases, which vary depending upon the time period. As the time period is expanded, other data is factored in, including estimated loan funding requirements, estimated loan payoffs, investment portfolio maturities or calls, and anticipated depository buildups or runoffs.

The Company classifies the majority of its investment securities as available-for-sale, thereby maintaining significant liquidity. The Company's liquidity position is further enhanced by structuring its loan portfolio interest payments as monthly and by the significant representation of retail credit and residential mortgage loans in the Company's loan portfolio, resulting in a steady stream of loan repayments. In managing its investment portfolio, the Company provides for staggered maturities so that cash flows are provided as such investments mature.

The Company's cash flows are composed of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Net cash provided by operating activities was $2.6 million for 1998, $7.8 million for 1997, and $5.5 million for 1996. Net cash used by investing activities, consisting primarily of loan and investing funding, was $35.8 million for 1998. For the year ended December 31, 1997, net cash provided by investing activities was $9.3 million. For the year ended December 31, 1996, net cash used in investing activities was $9.6 million. Net cash provided by financing activities for 1998 was $35.0 million and consisted primarily of increases in deposits and Federal Home Loan Bank advances. Net cash used by financing activities for 1997 was $23.5 million, consisting primarily of decreases in deposits and securities sold under agreements to repurchase. Net cash provided by financing activities for 1996 was $17.2 million and was directly related to the proceeds from issuance of common stock.

The Banks' investment securities portfolios, federal funds sold, and cash and due from bank deposit balances serve as the primary sources of liquidity for the Company. At December 31, 1998, 26.7% of the Banks' interest-bearing liabilities were in the form of time deposits of $100,000 and over. Substantially all of such large deposits were obtained from the Banks' market areas and none of such deposits are brokered deposits. Management believes these deposits to be a stable source of funds. However, if a large number of these time deposits matured at approximately the same time and were not renewed, the Banks' liquidity could be adversely affected. Currently, the maturities of the Banks' large time deposits are spread throughout the year, with 32.0% maturing in the first quarter of 1999, 19.7% maturing in the second quarter of 1999, 22.7% maturing in the third and fourth quarters of 1999, and the remaining 25.6% maturing thereafter. The Banks monitor those maturities in an effort to minimize any adverse effect on liquidity.

The Company's borrowings included notes payable at December 31, 1998 in the principal amount of $7,000,000 payable to the Company's principal correspondent bank. The Company incurred this debt in connection with the Acquisitions and in the acquisition of Ottawa National Bank in 1991. The note is renewable annually, requires quarterly interest payments, and is collateralized by the Company's stock in the Banks.

The Company's principal source of funds for repayment of the indebtedness is dividends from the Banks. At December 31, 1998, approximately $1,847,000 was available for dividends without regulatory approval.

CAPITAL RESOURCES

The Banks are expected to meet a minimum risk-based capital to risk-weighted assets ratio of 8%, of which at least one-half (or 4%) must be in the form of Tier 1 (core) capital. The remaining one-half (or 4%) may be in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowance that may be included in capital is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Company is 11.02% and 12.23%, respectively, at December 31, 1998. The Banks are currently, and expect to continue to be, in compliance with these guidelines.

The Board of Governors of the Federal Reserve Bank ("FRB") has announced a policy known as the "source of strength doctrine" that requires a bank holding company to serve as a source of financial and managerial strength for its subsidiary banks. The FRB has interpreted this requirement to require that a bank holding company, such as the Company, stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. The FRB has stated that it would generally view a failure to assist a troubled or failing subsidiary bank in these circumstances as an unsound or unsafe banking practice or a violation of the FRB's Regulation Y or both, justifying a cease and desist order or other enforcement action, particularly if appropriate resources are available to the bank holding company on a reasonable basis.

The following table sets forth an analysis of the Company's capital ratios:

RISK-BASED CAPITAL RATIOS
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1996	Minimum Capital Ratios	Well Capitalized Ratios
<S>	<C>	<C>	<C>	<C>	<C>
Tier 1 risk-based capital	$ 47,297	$ 41,180	$ 36,242		
Tier 2 risk-based capital	5,215	4,545	4,425		
Total capital	52,512	45,725	40,667		
Risk-weighted assets	429,325	385,685	374,028		
Capital ratios					
Tier 1 risk-based capital	11.02%	10.68%	9.69%	4.00%	6.00%
Tier 2 risk-based capital	12.23	11.86	10.87	8.00	10.00
Leverage ratio	7.66	6.64	7.76	4.00	5.00

</TABLE>

As of December 31, 1998, the Tier 2 risk-based capital was comprised of $3,858,000 in allowance for loan losses, $857,000 of Mandatory Redeemable Series B Preferred Stock, and $500,000 of Series A Convertible Preferred Stock. The Series A Preferred Stock is convertible into common stock, subject to certain adjustments intended to offset the amount of losses incurred by the Company upon the post-closing sale of certain securities acquired in conjunction with the 1996 acquisition of Prairie.

ACCOUNTING MATTERS

NEW ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (Statement) No. 133 on derivatives will, in 2000, require all derivatives to be recorded at fair value in the balance sheet, with changes in fair value charged or credited to income. If derivatives are documented and effective as hedges, the change in the derivative fair value will be offset by an equal change in the fair value of the hedged item. Under the new standard, securities held-to-maturity can no longer be hedged, except for changes in the issuer's creditworthiness. Therefore, upon adoption of Statement

No. 133, companies will have another one-time window of opportunity to reclassify held-to-maturity securities to either trading or available-for-sale, provided certain criteria are met. This Statement may be adopted early at the start of a calendar quarter. Since the Company has no significant derivative instruments or hedging activities, adoption of Statement No. 133 is not expected to have a material impact on the Company's financial statements. Management has not decided whether to adopt Statement No. 133 early.

Statement No. 134 on mortgage banking will, in 1999, allow mortgage loans that are securitized to be classified as trading; available-for-sale; or, in certain circumstances, held-to-maturity. Currently, these must be classified as trading. Since the Company has not securitized mortgage loans, Statement No. 134 is not expected to affect the Company.

American Institute of Certified Public Accountants Statement of Position 98-1, effective in 1999, sets the accounting requirement to capitalize costs incurred to develop or obtain software that is to be used solely to meet internal needs. Costs to capitalize are those direct costs incurred after the preliminary project stage, up to the date when all testing has been completed and the software is substantially ready for use. All training costs, research and development costs, costs incurred to convert data, and all other general and administrative costs are to be expensed as incurred. The capitalized cost of internal-use software is amortized over its useful life and reviewed for impairment using the criteria in Statement No. 121. Statement of Position 98-1 is not expected to have a material impact on the Company.

American Institute of Certified Public Accountants Statement of Position 98-5, also effective in 1999, requires all start-up, pre-opening, and organization costs to be expensed as incurred. Any such costs previously capitalized for financial reporting purposes must be written off to income at the start of the year. Statement of Position 98-5 is not expected to have a material impact on the Company.

The Financial Accounting Standards Board continues to study several issues, including recording all financial instruments at fair value and abolishing pooling-of-interests accounting. Also, it is likely that APB 25's measurement for stock option plans will be limited to employees and not to nonemployees such as directors, thereby causing compensation expense to be required for 1999 awards of stock options to outside directors.

YEAR 2000 COMPLIANCE

The federal banking regulators recently issued guidelines establishing minimum safety and soundness standards for achieving Year 2000 compliance. The guidelines, which took effect October 15, 1998 and apply to all FDIC-insured depository institutions, establish standards for developing and managing Year 2000 project plans, testing remediation efforts and planning for contingencies. The guidelines previously issued by the agencies under the auspices of the Federal Financial Institutions Examination Council (the "FFIEC") are not intended to replace or supplant the FFIEC guidelines which will continue to apply to all federally insured depository institutions.

The guidelines were issued under section 39 of the Federal Deposit Insurance Act (the "FDIA"), as amended, which requires the federal banking regulators to establish standards for the safe and sound operation of federally insured depository institutions. Under section 39 of the FDIA, if an institution fails to meet any of the standards established in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Such an order is enforceable in court in the same manner as a cease and desist order. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth or require the institution to take any action the regulator deems appropriate under the circumstances. In addition to the enforcement procedures established in section 39 of the FDIA, noncompliance with the standards established by the guidelines may also be grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

The year 2000 has posed a unique set of challenges to those industries reliant on information technology. As a result of methods employed by early programmers, many software applications and operational programs may be unable to distinguish the year 2000 from the year 1900. If not effectively addressed, this problem could result in the production of inaccurate data, or, in the worst cases, the inability of the systems to continue to function altogether. Financial institutions are particularly vulnerable due to the industry's dependence on electronic data processing systems. In 1997, the Company started the process of identifying the hardware and software issues related to the year 2000 and the potential for those issues to adversely affect the Company's operations and those of its subsidiaries.

As discussed in the 1997 Annual Report to Stockholders, the Company has spent considerable time and resources regarding the impact of the Year 2000 issue with respect to its computer systems and applications as well as to its general operations, customers, and suppliers. The Company has developed a strategic plan for Year 2000 compliance which is being administered by a committee comprised of individuals from all functional areas of the Company as well as being reviewed by senior management and the Board of Directors. The plan follows guidelines set forth by the FFIEC.

The status of each of the five phases of the FFIEC Year 2000 plan are:

1.	Awareness	100% complete
2.	Assessment	100% complete
3.	Renovation	100% complete
4.	Validation	85% complete
5.	Implementation	80% complete

The 15% of validation which remains to be completed consists of two issues. The core processing system of a non-bank subsidiary, which was upgraded in January 1999 to a version documented and tested by the vendor as being Year 2000 compliant, must be tested. The on-line communication between the Banks and outside correspondents, which is being conducted

pursuant to the testing schedules provided by the correspondents, is expected to be completed by March 31, 1999.

The 20% of implementation which remains to be completed consists of two issues. The software utilized for mortgage originations, which will be upgraded during the first quarter of 1999 to a version documented and tested by the vendor as being Year 2000 compliant, must be tested. A legacy system for ACH originations, which is being replaced during the first quarter of 1999 by a new system that is documented and tested by the vendor as being Year 2000 compliant, must be tested.

While the Company will incur some expenses during the next two years, the Company has not identified any situations at this time that will require material cost expenditures to become fully compliant. It is impossible at this time to quantify the estimated future costs due to possible business disruption caused by vendors, suppliers, customers, or even the possible loss of electric power or phone service; however, such cost could be substantial.

The Company is committed to achieving compliance, by focusing not only on its own data processing systems, but also in assisting its customers needs as well. Management has taken steps to educate and assist its customers with identification of Year 2000 compliance problems. In addition, management has proposed policy and procedure changes to help identify potential risks to the Company and to gain an understanding of how its customers are managing the risks associated with the Year 2000 issue. The Company has assessed the impact, if any, the Year 2000 will have on its credit risk and loan underwriting. In connection with potential credit risk related to the Year 2000 issue, the Company has contacted its commercial loan customers regarding their level of preparedness for the Year 2000. The corporate loan review officer maintains a current list of all customers that pose a potential liability to the Company due to the Year 2000 issue and regularly updates the Board of Directors.

Further, the Company has analyzed its liquidity position and how it could be affected by the Year 2000 issue. A plan has been developed that addresses liquidity issues that may arise. Overall, the Company feels that there are adequate sources available and that the costs associated with such sources will not have a material impact on the profits of the Company.

The Company has developed contingency plans for various Year 2000 problems and continues to revise those plans based on testing results and vendor notifications.

IMPACT OF INFLATION, CHANGING PRICES, AND MONETARY POLICIES

The financial statements and related financial data concerning the Company have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the performance of a financial institution than do the effects of changes in the general

rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Interest rates are highly sensitive to many factors which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the FRB.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors
UnionBancorp, Inc.
Ottawa, Illinois

We have audited the accompanying consolidated balance sheets of UnionBancorp, Inc. and Subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 1996 consolidated financial statements were audited by other auditors whose report dated February 5, 1997 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 1998 and 1997 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UnionBancorp, Inc. and Subsidiaries as of December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

Oak Brook, Illinois
February 5, 1999

UNIONBANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997 (IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
ASSETS		

Cash and cash equivalents	$ 24,613	$ 22,826
Federal funds sold	450	1,404
Securities available-for-sale	133,772	163,568
Securities held-to-maturity (fair value of $43,073 in 1998 and $37,840 in 1997)	41,847	37,170
Loans	398,388	370,985
Allowance for loan losses	(3,858)	(3,188)
Net loans	394,530	367,797
Premises and equipment, net	13,853	14,631
Intangible assets, net	9,099	9,898
Other assets	9,030	8,166
TOTAL ASSETS	$ 627,194	$ 625,460
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	$ 67,227	$ 62,095
Interest bearing	450,411	465,652
Total deposits	517,638	527,747
Federal funds purchased and securities sold under agreements to repurchase	14,855	11,761
Advances from the Federal Home Loan Bank	23,208	16,455
Notes payable	7,000	10,261
Other liabilities	6,545	6,154
TOTAL LIABILITIES	569,246	572,378
Minority interest in subsidiaries	--	644
Mandatory redeemable preferred stock, Series B, no par value; 1,092 shares authorized; 857 shares issued and outstanding	857	857
Stockholders' equity		
Preferred stock; 200,000 shares authorized; none issued	--	--
Series A Convertible Preferred Stock; 2,765 shares authorized, 2,762.24 shares outstanding (aggregate liquidation preference of $2,762)	500	500
Series C Preferred Stock; 4,500 shares authorized; none issued	--	--
Common stock, $1 par value; 10,000,000 shares authorized; 4,533,622 and 4,407,093 shares outstanding in 1998 and 1997, respectively	4,534	4,407
Surplus	21,471	19,705
Retained earnings	31,262	26,765
Accumulated other comprehensive income	31	856
Unearned compensation under stock option plans	(185)	(130)
	57,613	52,103
Treasury stock, at cost; 271,263 shares in 1998 and 1997	(522)	(522)
TOTAL STOCKHOLDERS' EQUITY	57,091	51,581
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 627,194	$ 625,460

See Accompanying Notes to Consolidated Financial Statements.

</TABLE>

UNIONBANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Interest income			
Loans and fees on loans	$36,102	$33,098	$22,138
Securities			
Taxable	9,156	10,838	7,039
Exempt from federal income taxes	2,129	1,694	1,574

Federal funds sold and other	333	409	286
TOTAL INTEREST INCOME	47,720	46,039	31,037
Interest expense			
Deposits	22,338	21,664	15,239
Federal funds purchased and securities sold under agreements to repurchase	953	1,171	861
Advances from the Federal Home Loan Bank	1,226	543	213
Notes payable	741	1,057	690
TOTAL INTEREST EXPENSE	25,258	24,435	17,003
NET INTEREST INCOME	22,462	21,604	14,034
Provision for loan losses	1,635	1,079	1,178
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,827	20,525	12,856
Noninterest income			
Service charges	2,251	1,854	1,286
Merchant fee income	833	670	524
Trust income	590	516	393
Mortgage banking income	1,518	751	425
Insurance commissions and fees	317	--	--
Securities gains, net	56	193	20
Gain on sale of subsidiaries	820	--	--
Other income	1,686	1,198	574
	8,071	5,182	3,222
Noninterest expenses			
Salaries and employee benefits	10,557	9,231	6,469
Occupancy expense, net	1,520	1,532	899
Furniture and equipment expense	1,788	1,599	977
Supplies and printing	563	602	395
Telephone	576	472	277
Amortization of intangible assets	940	903	392
Other expenses	4,789	4,425	2,839
	20,733	18,764	12,248
	8,165	6,943	3,830
Minority interest	53	73	27
INCOME BEFORE INCOME TAXES	8,112	6,870	3,803
Income taxes	2,723	2,105	969
NET INCOME	5,389	4,765	2,834
Preferred stock dividends	259	259	105
NET INCOME FOR COMMON STOCKHOLDERS	$ 5,130	$ 4,506	$ 2,729
BASIC EARNINGS PER COMMON SHARE	$ 1.23	$ 1.09	$ 1.00
DILUTED EARNINGS PER COMMON SHARE	$ 1.22	$ 1.08	$ .99

</TABLE>

See Accompanying Notes to Consolidated Financial Statements.

UNIONBANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

<TABLE>
<CAPTION>

	SERIES A CONVERTIBLE PREFERRED STOCK	COMMON STOCK	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	UNEARNED COMPENSATION UNDER STOCK OPTION PLANS	TREASURY STOCK	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Balance, January 1, 1996	$ --	$ 2,400	$ 1,074	$ 20,568	$ 2	$ (48)	$ (521)	$ 23,475
Issuance of 1,266,398 shares of common stock	--	1,266	12,221	--	--	--	--	13,487
Cost to raise capital	--	--	(1,051)	--	--	--	--	(1,051)
Common stock dividend	--	--	--	(316)	--	--	--	(316)
Preferred stock dividends	--	--	--	(105)	--	--	--	(105)
Stock issued for acquisitions (2,765 shares of Series A preferred stock and 719,666 shares of common stock)	500	720	7,090	--	--	--	--	8,310
Issuance of non-qualifying stock options	--	--	69	--	--	(69)	--	--
Amortization of un-earned compensation under stock option plans	--	--	--	--	--	26	--	26
Redemption of qualifying directors' stock	--	--	--	--	--	--	(1)	(1)
Comprehensive income								
Net income	--	--	--	2,834	--	--	--	2,834
Net decrease in fair value of securities classified as available-for-sale, net of income taxes and reclassi-fication adjustments	--	--	--	--	(76)	--	--	(76)
Total comprehensive income								2,758
Balance, December 31, 1996	500	4,386	19,403	22,981	(74)	(91)	(522)	46,583
Issuance of 19,829 shares of common stock	--	20	214	--	--	--	--	234
Common stock dividend	--	--	--	(722)	--	--	--	(722)
Preferred stock dividends	--	--	--	(259)	--	--	--	(259)
Issuance of non-qualifying stock options	--	--	81	--	--	(81)	--	--
Exercise of stock options (1,200 shares)	--	1	7	--	--	--	--	8
Amortization of un-earned compensation under stock option plans	--	--	--	--	--	42	--	42
Comprehensive income								
Net income	--	--	--	4,765	--	--	--	4,765
Net increase in fair value of securities classified as available-for-sale, net of income taxes and reclass-ification adjustments	--	--	--	--	930	--	--	930
Total comprehensive income								5,695
Balance, December 31, 1997	500	4,407	19,705	26,765	856	(130)	(522)	51,581

</TABLE>

(Continued)

UNIONBANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	<C> SERIES A CONVERTIBLE PREFERRED STOCK	<C> COMMON STOCK	<C> SURPLUS	<C> RETAINED EARNINGS	<C> ACCUMULATED OTHER COMPREHENSIVE INCOME	<C> UNEARNED COMPENSATION UNDER STOCK OPTION PLANS	<C> TREASURY STOCK	<C> TOTAL
Balance, December 31, 1997	$ 500	$ 4,407	$ 19,705	$ 26,765	$ 856	$ (130)	$ (522)	$ 51,581
Common stock dividends	--	--	--	(633)	--	--	--	(633)
Issuance of 123,529 shares								

of common stock	--	124	1,621	--	--	--	--	1,745
Preferred stock dividends	--	--	--	(259)	--	--	--	(259)
Issuance of non-qualifying stock options	--	--	120	--	--	(120)	--	--
Exercise of stock options (3,000 shares)	--	3	25	--	--	--	--	28
Amortization of unearned compensation under stock option plans	--	--	--	--	--	65	--	65
Comprehensive income								
Net income	--	--	--	5,389	--	--	--	5,389
Net decrease in fair value of securities classified as available-for-sale, net of income taxes and reclassification adjustments	--	--	--	--	(825)	--	--	(825)
Total comprehensive income								4,564
Balance, December 31, 1998	$ 500	$ 4,534	$ 21,471	$ 31,262	$ 31	$ (185)	$ (522)	$ 57,091

</TABLE>

See Accompanying Notes to Consolidated Financial Statements.

UNIONBANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Cash flows from operating activities			
Net income	$ 5,389	$ 4,765	$ 2,834
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,679	1,474	849
Amortization of intangible assets	940	903	392
Amortization of unearned compensation under stock option plans	65	42	26
Amortization of bond premiums, net	126	254	543
Provision for loan losses	1,635	1,079	1,178
Provision for deferred income taxes	(44)	287	(45)
Securities gains, net	(56)	(193)	(20)
Gain on sale of subsidiaries, net	(820)	--	--
Gain on sale of land and equipment	(143)	(76)	--
Gain on sale of real estate acquired in settlement of loans	(4)	(51)	(134)
Gain on sale of loans	(1,313)	(546)	(262)
Net loans originated for sale	(4,507)	(527)	552
Minority interest in net income of subsidiary	53	73	27
Change in assets and liabilities			
(Increase) decrease in other assets	134	(165)	9
Increase (decrease) in other liabilities	(516)	509	(449)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,618	7,828	5,500
Cash flows from investing activities			
Securities			
Held-to-maturity			
Proceeds from calls, maturities, and paydowns	6,333	3,108	4,429
Purchases	(13,208)	(5,367)	(5,247)
Available-for-sale			
Proceeds from maturities and paydowns	69,447	30,071	20,455
Proceeds from sales	7,453	28,773	24,620
Purchases	(58,782)	(29,550)	(19,708)
Net decrease in federal funds sold	(818)	8,863	167
Net increase in loans	(42,838)	(24,831)	(21,841)
Purchase of premises and equipment	(2,205)	(2,630)	(1,314)
Proceeds from sale of real estate acquired in settlement of loans	420	655	575
Proceeds from sale of land and equipment	832	181	3
Bank and bank holding company acquisitions and sales, net of cash and cash equivalents received	(2,470)	--	(11,748)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(35,836)	9,273	(9,609)

</TABLE>

UNIONBANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996 (IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from financing activities			
Net increase (decrease) in deposits	$ 27,827	$(15,997)	$ 1,747
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	3,705	(10,056)	2,481
Net increase (decrease) in advances from the Federal Home Loan Bank	7,598	6,434	(4,000)
Payments on notes payable	(3,261)	(3,685)	(13,802)
Proceeds from notes payable	--	766	18,686
Dividends on common stock	(633)	(722)	(316)
Dividends on preferred stock	(259)	(259)	(53)
Proceeds from exercise of stock options	28	8	--
Redemption of qualifying directors' stock	--	--	(1)
Proceeds from issuance of common stock, net of costs to raise capital	--	--	12,436
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	35,005	(23,511)	17,178
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,787	(6,410)	13,069
Cash and cash equivalents			
Beginning of year	22,826	29,236	16,167
End of year	$ 24,613	$ 22,826	$ 29,236
Supplemental disclosures of cash flow information			
Cash payments for			
Interest	$ 25,591	$ 24,547	$ 16,569
Income taxes	2,387	1,966	921

</TABLE>

UNIONBANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UnionBancorp, Inc. (the "Company") is a bank holding company organized under the laws of the state of Delaware. Through its commercial bank and nonbank subsidiaries, the Company provides a full range of banking services to individual and corporate customers in the north central and west central Illinois areas. These services include demand, time, and savings deposits; lending; mortgage banking; insurance products; and trust services. The Company is subject to competition from other financial institutions and nonfinancial institutions providing financial services. Additionally, the Company and its bank subsidiaries (the "Banks") are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company; its bank subsidiaries, UnionBank, UnionBank/West, UnionBank/Central, UnionBank/Northwest; and its nonbank subsidiaries, Union Data Corp., Inc. and Union Trust Corporation. In addition, UnionBank has a nonbank subsidiary, UnionFinancial Services, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and with general practice in the banking industry. In preparing the financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for loan losses, fair values of financial instruments, and status of contingencies are particularly subject to change.

Assets held in an agency or fiduciary capacity, other than trust cash on deposit with the Banks, are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

SECURITIES

Securities classified as held-to-maturity are those debt securities which the Company has the ability and management has the intent to hold to maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed using the interest method over their contractual lives.

Securities classified as available-for-sale are those debt securities which the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

(Continued)

Securities available-for-sale are carried at fair value with unrealized gains or losses, net of the related deferred income tax effect, reported in other comprehensive income.

Interest income, adjusted for amortization of premiums and accretion of discounts is included in earnings. Gains or losses from the sale of securities are determined using the specific identification method.

LOANS

Loans are stated at the principal amount outstanding, net of unearned discount and the allowance for loan losses. Unearned discount on certain installment loans is credited to income over the term of the loan using the interest method. For all other loans, interest is credited to income as earned using the simple interest method applied to the daily balances of the principal amount outstanding.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due (usually 90 days). When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and the principal is considered fully collectible.

The Banks originate certain loans for sale in the secondary market. These loans are recorded at the lower of aggregate cost or market value until they are sold. Net unrealized losses are recognized in a valuation allowance by charges to income. Gains or losses on sales of loans held for sale are computed using the specific-identification method and are reflected in income at the time of sale.

MORTGAGE SERVICING RIGHTS

The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market rate. The amount of impairment is the excess of the capitalized mortgage servicing rights over fair value. Any impairment of a grouping is reported as a valuation allowance. At December 31, 1998 and 1997, the Company had $727 and $192, respectively, of mortgage servicing rights assets which are included in other assets. There was no such valuation allowance recorded at year-end 1998 or 1997.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Mortgage loans are charged off after being delinquent 180 days unless the collateral is sufficient to pay off the debt when liquidated.

Consumer loans are charged off after 120 days of delinquency. The allowance is an amount that management believes will be adequate to absorb losses on existing loans based on evaluations of the collectibility of loans and prior loan loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Banks' allowance for loan losses and may require the Banks to make additions to the allowance based on their judgment about information available to them at the time of their examination.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line methods over the estimated useful lives of the assets.

INTANGIBLE ASSETS

The excess of the purchase price over the fair value of assets acquired for acquisition transactions accounted for as purchases is recorded as an intangible asset. Fair value adjustments for identifiable tangible assets are accreted and amortized over the lives of the respective assets. Core deposit intangibles are amortized on a straight-line basis over ten years. Goodwill is amortized on a straight-line basis over fifteen years.

INCOME TAXES

Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

EARNINGS PER SHARE

Basic earnings per share is based on weighted-average common shares outstanding. Diluted earnings per share assumes the issuance of any dilutive potential common shares under stock options and Series A converted preferred shares using the treasury stock method. The accounting standard for computing earnings per share was revised for 1997, and all earnings per share previously reported are restated to follow the new standard.

PREFERRED STOCK

Terms of each class of preferred stock are as follows:

PREFERRED STOCK: The Company's Certificate of Incorporation authorizes its Board of Directors to fix or alter the rights, preferences, privileges, and restrictions of 200,000 shares of Preferred Stock, including the dividend rights, original issue price, conversion rights, voting rights, terms of redemption, liquidation preferences, and sinking fund terms thereof, and the number of shares of each series subsequent to the issuance of shares of such series (but not below the number of shares outstanding). The Board of

Directors has also fixed the rights, preferences, privileges, and restrictions with respect to 2,765 shares of Series A Preferred Stock, 1,092 shares of Series B Preferred Stock, and 4,500 shares of Series C Preferred Stock, as described below.

SERIES A CONVERTIBLE PREFERRED STOCK: The Company has issued 2,762.24 of the 2,765 authorized shares of Series A Convertible Preferred Stock. Preferential cumulative cash dividends are payable quarterly at an annual rate of $75.00 per share. Dividends accrue on each share of Series A Preferred Stock from the date of issuance and from day to day thereafter, whether or not earned or declared. The shares of Series A Preferred Stock are convertible into the number of shares of Common Stock that results from multiplying $1,000 by the number of shares of Series A Preferred Stock, subtracting from this product such realized after-tax loss of specified securities obtained in the acquisition of Prairie Bancorp, Inc. and dividing this result by the conversion price (1.075 times the Common Stock per share book value). Series A Preferred Stock is not redeemable for cash. Holders of shares of Series A Preferred Stock are not entitled to vote except: (i) as required by law; (ii) to approve the authorization or issuance of any shares of any class or series of stock which ranks senior or on a parity with the Series A Preferred Stock in respect of dividends and distributions upon the dissolution, liquidation, or winding up of the Company; (iii) during any period of time when two dividend payments on shares of Series A Preferred Stock have accrued but have not been paid; (iv) upon conversion of the shares of Series A Preferred Stock into shares of Common Stock; or (v) if the holders of Common Stock vote on a proposal to merge or otherwise enter into a transaction with a third party pursuant to which the Company is not the surviving entity. On dissolution, winding up, or liquidation of the Company, voluntary or otherwise, holders of Series A Preferred Stock will be entitled to receive, out of the assets of the Company available for distribution to stockholders, the amount of $1,000 per share, plus any accrued but unpaid dividends,

(Continued)

before any payment or distribution may be made on shares of Common Stock or any other securities issued by the Company which rank junior to the Series A Preferred Stock.

SERIES B MANDATORY REDEEMABLE PREFERRED STOCK: The Company has issued 857 of the 1,092 authorized shares of Series B Mandatory Redeemable Preferred Stock. Preferential cumulative cash dividends are payable quarterly at an annual rate of $60.00 per share. Dividends accrue on each share of Series B Preferred Stock from the date of issuance and from day to day, thereafter, whether or not earned or declared. Each original holder of Series B Preferred Stock (or upon such holder's deaths, their respective executors or personal representatives) will have the option, exercisable at their sole discretion, to sell and the Company will be obligated to redeem such holder's shares of Series B Preferred Stock upon the earlier to occur of the death of the respective original holder of Series B Preferred Stock or ten years after the original issuance date of the Series B Preferred Stock. The per share price payable by the Company for such shares of Series B Preferred Stock will be equal to $1,000 per share, plus any accrued but unpaid dividends. Notwithstanding the foregoing, the Company will not be obligated to redeem for cash any shares of Series B Preferred Stock if such redemption would cause it to be in violation of any statute, rule, or regulation or agreement to which it is a party relating to minimum capital requirements, provided that the Company is required to use its best efforts promptly to remedy any such violation and shall promptly complete the redemption of such shares after such violation has been cured. Holders of shares of Series B Preferred Stock are not entitled to vote except as required by law. On dissolution, wind up, or liquidation of the Company, voluntary or otherwise, holders of Series B Preferred Stock will be entitled to receive, out of the assets of the Company available for distribution to stockholders, the amount of $1,000 per share, plus any accrued but unpaid dividends, before any payment or distribution may be made on shares of Common Stock or any other securities issued by the Company which rank junior to the Series B Preferred Stock.

SERIES C JUNIOR PARTICIPATING PREFERRED STOCK: The Company has authorized 4,500 shares of Series C Junior Participating Preferred Stock. The Series C Preferred Stock is only issuable upon exercise of rights issued pursuant to the Company's Stockholder Rights Plan. Each share of Series C Junior Participating Preferred Stock is entitled to, when, as, and if declared, a minimum preferential quarterly dividend payment of $3.00 per share but will be entitled to an aggregate dividend of 1,000 times the dividend declared per share of Common Stock. In the event of liquidation, dissolution, or winding up of the Company, the holders of the Series C Preferred Stock will be entitled to a minimum preferential payment of $1,000 per share (plus any accrued but unpaid dividends) but will be entitled to an aggregate payment of 1,000 times the payment made per share of Common Stock. Each share of Series C Preferred Stock will have 1,000 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation, or other transaction in which outstanding shares of Common Stock are converted or exchanged, each share of Series C Preferred Stock will be entitled to receive 1,000 times the amount received per share of Common Stock. These rights are protected by customary antidilution provisions.

(Continued)

STOCKHOLDER RIGHTS PLAN: On July 17, 1996, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series C Junior Participating Preferred Stock, no par value, of the Company at a price of $50.00 per one one-thousandth of a share of Preferred Stock (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of August 5, 1996, as the same may be amended from time to time (the "Rights Agreement"), between the Company and Harris Trust and Savings Bank, as Rights Agent.

The Rights are not exercisable until the earlier to occur of: (i) 10 days after a person or group ("Acquiring Person") has acquired beneficial ownership of 15% or more of the outstanding shares of Common Stock or (ii) 10 business days (or such later date as determined by the Board of Directors) following the commencement of a tender offer or exchange offer (the "Distribution Date"). Unless extended, the Rights will expire on August 4, 2006.

In the event that any person(s) 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 that number of shares of Common Stock having a market value of two times the exercise price of the Right.

In the event that, after a person or group has become an Acquiring Person, the Company 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 have become void) will thereafter have the right to receive upon the exercise of a Right that number of shares of common stock of the person with whom the Company has engaged in the foregoing transaction (or its parent) that at the time of such transaction have a market value of two times the exercise price of the Right.

At any time prior to the time an Acquiring Person becomes such, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $.01 per Right.

DIVIDEND RESTRICTION

Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends which may be paid by the subsidiary banks to the holding company or by the holding company to stockholders.

(Continued)

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company retroactively adopted the provisions of Statement of Financial Accounting Standards No. 130 which requires comprehensive income to be reported for all periods. Comprehensive income includes both net income and other comprehensive income elements, including the change in unrealized gains and losses on securities available-for-sale, net of tax.

FUTURE ACCOUNTING CHANGES

Beginning January 1, 2000, a new accounting standard will require all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. This is not expected to have a material effect but will depend on derivative holdings when this standard is first adopted.

Mortgage loans originated in mortgage banking are converted into securities on occasion. A new accounting standard for 1999 will allow classifying these securities as available-for-sale, trading, or held-to-maturity, instead of the current requirement to classify as trading. This is not expected to have a material effect but the effect will vary depending on the level and designation of securitizations as well as on market price movements.

NOTE 2. BUSINESS ACQUISITIONS AND DIVESTITURES

1998

On October 30, 1998, the Company acquired Mercier Insurance Agency L.P. ("Mercier"), an insurance agency located in Spring Valley, Illinois. At the date of acquisition, Mercier had approximately $1,729 of total assets and $1,005 of liabilities. In conjunction with the acquisition, the Company issued 123,529 shares of Common Stock valued at $1,745 and paid cash of $1,000. The total acquisition cost of $2,745 resulted in goodwill of $2,021. This transaction was recorded using the purchase method of accounting. As such, the results of operations of Mercier are excluded from the consolidated statements of income for the periods prior to the acquisition date. The effects of this transaction are not material, and therefore, details of the previously separate entity have not been included.

On November 30, 1998, the Company sold its 81.7% interest in one of its subsidiary banks, Bank of Ladd. At the date of sale, Bank of Ladd had approximately $33,782 in total assets and $29,619 in total liabilities. Earnings through November 30, 1998 approximated $291,000 and the sales price was $4,781.

(Continued)

On December 17, 1998, the Company sold a UnionBank/West branch location. At the date of sale, the branch had approximately $3,467 in total assets and $10,009 in total liabilities. The sales price was $5,881.

1996

On August 6, 1996, the Company acquired six additional bank subsidiaries through the purchase of Prairie Bancorp, Inc. ("Prairie"), a multi-bank holding company headquartered in Princeton, Illinois. At the date of acquisition, Prairie had approximately $226,756 in total assets and $189,271 in total deposits. In conjunction with the acquisition, the Company issued 2,762.24 of the 2,765 authorized shares of Series A Convertible Preferred Stock, which were valued at $500. In addition, the Company issued 857 of the 1,092 authorized shares of Series B Preferred Stock, which were valued at $857 and 710,576 shares of Common Stock valued at $7,710. The total acquisition cost of $14,302 resulted in goodwill of $2,749 and core deposit intangible estimated at $1,857.

On September 25, 1996, the Company acquired an additional bank subsidiary through the purchase of Country Bancshares, Inc. ("Country"). At the date of acquisition, Country had approximately $109,040 in total assets and $90,999 in total deposits. The cash purchase price of $11,627 resulted in goodwill of $4,842 and core deposit intangible estimated at $632.

These acquisitions were recorded using the purchase method of accounting. As such, the results of operations of the acquired entities are excluded from the consolidated statements of income for the periods prior to the respective acquisition dates.

The unaudited pro forma consolidated results of operations which follow assume the acquisitions had occurred as of January 1, 1996. In addition to combining the historical results of operations of the companies, the pro forma calculations include purchase accounting adjustments related to the acquisitions and interest on borrowed funds.

Unaudited pro forma consolidated results of operations for the year ended December 31, 1996:

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)

<S> <C>

Net interest income	$ 17,965
Net income	3,088
Earnings per common share	$ 0.68

</TABLE>

(Continued)

NOTE 3. SECURITIES

Amortized costs and fair values of securities are summarized as follows:
<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE-FOR-SALE				
December 31, 1998				
U.S. Treasury	$ 6,753	$ 138	$ -	$ 6,891
U.S. government agencies and corporations	49,203	222	(95)	49,330
U.S. government mortgage-backed securities	31,111	52	(158)	31,005
Collateralized mortgage obligations	43,315	474	(581)	43,208
Corporate bonds	100	-	-	100
Other	3,238	-	-	3,238
	$ 133,720	$ 886	$ (834)	$ 133,772
December 31, 1997				
U.S. Treasury	$ 19,071	$ 98	$ (6)	$ 19,163
U.S. government agencies and corporations	59,341	173	(199)	59,315
U.S. government mortgage-backed securities	21,797	907	(9)	22,695
Collateralized mortgage obligations	57,800	528	(28)	58,300
Corporate bonds	100	-	-	100
Other	4,001	-	(6)	3,995
	$ 162,110	$ 1,706	$ (248)	$ 163,568
HELD-TO-MATURITY				
December 31, 1998				
States and political subdivisions	$ 41,847	$ 1,245	$ (19)	$ 43,073
December 31, 1997				
States and political subdivisions	$ 37,170	$ 805	$ (135)	$ 37,840

</TABLE>

(Continued)

The amortized cost and fair value of securities classified as held-to-maturity and available-for-sale at December 31, 1998, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(IN THOUSANDS, EXCEPT SHARE DATA)

	Held-to-Maturity		Available-For-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,967	$ 5,035	$ 33,666	$ 33,778
Due after one year through five years	13,776	14,120	21,374	21,539
Due after five years through ten years	21,109	21,831	1,016	1,004
Due after ten years	1,995	2,087	-	-
U.S. government mortgage-backed securities	-	-	31,111	31,005
Collateralized mortgage obligations	-	-	43,315	43,208
Equity securities	-	-	3,238	3,238
	$ 41,847	$ 43,073	$ 133,720	$ 133,772

As of December 31, 1998, the Company held U.S. government agency structured notes and callable securities carried at fair values of $2,123 and $46,706, respectively. The amortized cost of these securities was $2,200 and $46,502, respectively, as of December 31, 1998.

Securities with carrying values of approximately $123,000 and $125,000 at December 31, 1998 and 1997, respectively, were pledged to secure public deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Realized gains and losses from the sale of securities available-for-sale follow:

	Years Ended December 31,		
	1998	1997	1996
Proceeds	$ 7,453	$ 28,773	$ 24,620
Realized gains	79	287	137
Realized losses	(23)	(94)	(117)

(Continued)

NOTE 4. LOANS

The major classifications of loans follow:

	December 31,	
	1998	1997
Commercial	$ 116,302	$ 102,367
Real estate	246,518	224,489
Installment	32,714	41,210
Other	2,884	3,076
	398,418	371,142
Less:		
Unearned interest	30	157

(IN THOUSANDS, EXCEPT SHARE DATA)

Allowance for loan losses	3,858	3,188
	3,888	3,345
	$ 394,530	$ 367,797

</TABLE>

Included in real estate loans are $8,269 and $3,235 of loans held for sale at December 31, 1998 and 1997, respectively. In addition, there are $786 of Small Business Administration loans held for sale at December 31, 1998.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $114,316 and $66,535 at December 31, 1998 and 1997, respectively.

The following table presents data on impaired loans:

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Year-end impaired loans for which an allowance has been provided	$ 432	$ 1,714	$ 14
Year-end impaired loans for which no allowance has been provided	1,105	-	1,080
Total loans determined to be impaired	$ 1,537	$ 1,714	$ 1,094
Allowance for loan loss for impaired loans included in the allowance for loan losses	$ 289	$ 286	$ 2
Average recorded investment in impaired loans	$ 1,817	$ 2,375	$ 947
Interest income recognized from impaired loans	$ 94	$ 6	$ -
Cash basis interest income recognized from impaired loans	$ -	$ -	$ -

</TABLE>

(Continued)

The Company and its subsidiaries conduct most of their business activities, including granting agribusiness, commercial, residential, and installment loans with customers in north central and west central Illinois. The Banks' loan portfolios include a concentration of loans to agricultural and agricultural-related industries amounting to approximately $77,611 and $67,386 as of December 31, 1998 and 1997, respectively. In addition, the Company has a concentration of commercial real estate loans of approximately $99,872 and $72,730 as of December 31, 1998 and 1997, respectively. Credit losses arising from lending transactions with agricultural entities compare favorably with the Banks' credit loss experience on the loan portfolio as a whole.

In the normal course of business, loans are made to executive officers, directors, and principal stockholders of the Company and its subsidiaries and to parties which the Company or its directors, executive officers, and stockholders have the ability to significantly influence (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectibility. Changes in such loans during the year ended December 31, 1998 follow:

<TABLE>
<CAPTION>

<S> <C>

(IN THOUSANDS, EXCEPT SHARE DATA)

Balance at December 31, 1997	$ 5,483
New loans, extensions, and modifications	9,826
Repayments	(2,660)
Balance at December 31, 1998	$ 12,649

</TABLE>

NOTE 5. ALLOWANCE FOR LOAN LOSSES

An analysis of activity in the allowance for loan losses follows:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
Balance at beginning of year	$ 3,188	$ 3,068	$ 2,014
Balance acquired (divested)	(176)	-	1,292
Provision for loan losses	1,635	1,079	1,178
Recoveries	243	248	98
Loans charged off	(1,032)	(1,207)	(1,514)
Balance at end of year	$ 3,858	$ 3,188	$ 3,068

</TABLE>

(Continued)

NOTE 6. PREMISES AND EQUIPMENT

Premises and equipment consisted of:
<TABLE>
<CAPTION>

	December 31,	
	1998	1997
Land	$ 1,017	$ 1,645
Buildings	11,901	12,774
Furniture and equipment	12,483	11,889
	25,401	26,308
Less accumulated depreciation	11,548	11,677
	$ 13,853	$ 14,631

</TABLE>

NOTE 7. DEPOSITS

Deposit account balances by type are summarized as follows:
<TABLE>
<CAPTION>

	December 31,	
	1998	1997
Non-interest-bearing demand deposits	$ 67,227	$ 62,095
Savings, NOW, and money market accounts	144,861	148,095
Time deposits of $100 or more	132,235	80,139
Other time deposits	173,315	237,418

(IN THOUSANDS, EXCEPT SHARE DATA)

	$ 517,638	$ 527,747

</TABLE>

At December 31, 1998, the scheduled maturities of time deposits are as follows:

<TABLE>
<CAPTION>

YEAR	AMOUNT
<S>	<C>
1999	$ 221,244
2000	55,689
2001	13,030
2002	2,476
2003 and thereafter	13,111
	$ 305,550

</TABLE>

(Continued)

A maturity distribution of time certificates of deposit in denominations of $100 or more was as follows:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
3 months or less	$ 42,264	$ 30,327
Over 3 months through 6 months	26,056	13,680
Over 6 months through 12 months	30,033	18,738
Over 12 months	33,882	17,394
	$ 132,235	$ 80,139

</TABLE>

NOTE 8. BORROWED FUNDS

Borrowed funds include federal funds purchased and securities sold under agreements to repurchase, advances from the Federal Home Loan Bank, and notes payable to third parties.

A summary of short-term borrowings follows:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Federal funds purchased	$ 4,000	$ -
Securities sold under agreements to repurchase	10,855	11,761
	$ 14,855	$ 11,761

</TABLE>

Federal funds purchased and securities sold under agreement to repurchase generally mature within one to ninety days from the transaction date.

(IN THOUSANDS, EXCEPT SHARE DATA)

At December 31, 1998, the scheduled maturities of advances from the Federal Home Loan Bank are as follows:

Year	Average Interest rate	Amount
1999	4.85%	$ 1,000
2001	5.57	4,058
2002	5.51	8,350
Thereafter	5.48	9,800
		$ 23,208

Where required, the FHLB advances are secured by unspecified mortgage loans.

(Continued)

Notes payable consisted of the following at December 31, 1998 and 1997:

	1998	1997
Line of credit loan ($10,000) to LaSalle National Bank; interest due quarterly at LIBOR (6.7382% at December 31, 1998); balance due on September 1, 1999; secured by 100% of the stock of the subsidiary banks.	$ 7,000	$10,000
Revolving credit loan ($5,000) to LaSalle National Bank; interest due quarterly at prime rate (7.75% at December 31, 1998); balance due at September 1, 1999; secured by 100% of the stock of the subsidiary banks.	-	-
Mortgage note payable to an individual, secured by land. The note bore imputed interest at 8% and payments of principal and interest were due over three years in amounts of $50,000, $50,000, and $250,000.	-	261
	$ 7,000	$ 10,261

The note payable agreements contain certain covenants which limit the amount of dividends paid, the purchase of other banks and/or businesses, the purchase of investments not in the ordinary course of business, the changes in capital structure, and the guarantees of other liabilities and obligations. In addition, the Company must maintain certain financial ratios. The Company was in compliance with all covenants for the year ended December 31, 1998.

Information concerning borrowed funds is as follows:

	Years Ended December 31,		
	1998	1997	1996
FEDERAL FUNDS PURCHASED			
Maximum month-end balance during the year	$ 6,050	$ 11,200	$ 11,288
Average balance during the year	$ 1,312	$ 2,451	$ 2,448
Weighted average interest rate for the year	6.53%	6.58%	5.26%
Weighted average interest rate at year end	6.00%	-%	7.50%
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE			
Maximum month-end balance during the year	$ 23,844	$ 11,861	$ 32,310
Average balance during the year	$ 15,461	$ 18,232	$ 20,239
Weighted average interest rate for the year	5.61%	5.53%	5.70%
Weighted average interest rate at year end	5.25%	5.80%	5.79%

(IN THOUSANDS, EXCEPT SHARE DATA)

ADVANCES FROM THE FEDERAL HOME LOAN BANK			
Maximum month-end balance during the year	$ 25,955	$ 22,895	$ 15,422
Average balance during the year	$ 21,727	$ 8,783	$ 13,294
Weighted average interest rate for the year	5.64%	6.18%	5.29%
Weighted average interest rate at year end	5.48%	5.78%	6.03%

</TABLE>

(Continued)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
NOTES PAYABLE			
Maximum month-end balance during the year	$ 12,130	$ 17,419	$ 25,320
Average balance during the year	$ 11,024	$ 13,247	$ 8,364
Weighted average interest rate for the year	7.14%	7.98%	8.25%
Weighted average interest rate at year end	6.74%	7.40%	8.25%

</TABLE>

NOTE 9. INCOME TAXES

Income taxes consisted of:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
Federal			
Current	$ 2,547	$ 1,818	$ 918
Deferred	(138)	12	(24)
	2,409	1,830	894
State			
Current	220	-	96
Deferred	94	275	(21)
	314	275	75
	$ 2,723	$ 2,105	$ 969

</TABLE>

The Company's income tax expense differed from the statutory federal rate of 34% as follows:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
Expected income taxes	$ 2,758	$ 2,336	$ 1,293
Income tax effect of			
Interest earned on tax-free investments and loans	(768)	(632)	(535)
Nondeductible interest expense incurred to carry tax-free investments and loans	115	87	90
Nondeductible amortization	659	199	67
State income taxes, net of federal tax benefit	252	220	50
Gain on sale of subsidiaries, net	(157)	-	-
Other	(136)	(105)	4

(IN THOUSANDS, EXCEPT SHARE DATA)

	$ 2,723	$ 2,105	$ 969

</TABLE>

(Continued)

The significant components of deferred income tax assets and liabilities consisted of:

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
Deferred tax assets		
Allowance for loan losses	$ 1,033	$ 492
Deferred compensation	25	33
TOTAL DEFERRED TAX ASSETS	1,058	525
Deferred tax liabilities		
Depreciation	(546)	(486)
Purchase accounting adjustments	(360)	(444)
Securities available-for-sale	(20)	(856)
Other	(893)	(380)
TOTAL DEFERRED TAX LIABILITIES	(1,819)	(2,166)
Net deferred tax liabilities	$ (761)	$ (1,641)

</TABLE>

NOTE 10. BENEFIT PLANS

The Company's Employee Stock Ownership Plan (the "Plan") covers all full-time employees who have completed six months of service and have attained the minimum age of twenty and one-half years. Vesting in the Plan is based on years of continuous service. A participant is fully vested after seven years of credited service.

The Plan owns 439,368 shares of the Company's common stock. At December 31, 1998, all shares held by the Plan were allocated to Plan participants. The Plan operated as a leveraged employee stock ownership plan until April 1996, when the outstanding debt of the Plan was retired. Principal and interest on the loan had been required to be paid in quarterly installments.

Company contributions, when aggregated with the Plan's dividend and interest earnings, have been, at a minimum, equal to the amount required by the Plan to pay the principal and interest on the loan, plus the sum required to purchase allocated shares from terminated participants. The Company expenses all cash contributions made to the Plan. Contributions were $355, $272, and $252 for the years ended December 31, 1998, 1997, and 1996, respectively.

Effective January 1, 1998, the Company established a 401(k) salary reduction plan (the "401(k) plan") covering substantially all employees. Eligible employees may elect to make tax deferred contributions within a specified range of their compensation as defined in the 401(k) plan. The Company contributes at its discretion. Contributions to the 401(k) plan are expensed currently and approximated $145 for the year ended December 31, 1998. Prior to January 1, 1998, Prairie maintained a 401(k) salary reduction plan covering substantially all employees. UnionBancorp,

(Continued)

(IN THOUSANDS, EXCEPT SHARE DATA)

Inc. maintained Prairie's plan after the acquisitions and contributed at its discretion until the plan was merged with the Company's 401(k) plan on January 1, 1998. Contributions to the plans were expensed and approximated $93 and $23 for the years ended December 31, 1997 and 1996, respectively.

NOTE 11. STOCK OPTION PLAN

In April 1993, the Company adopted the UnionBancorp 1993 Stock Option Plan (the "Option Plan"). Under the Option Plan, nonqualified options, incentive stock options, and/or stock appreciation rights may be granted to employees and outside directors of the Company and its subsidiaries to purchase the Company's Common Stock at an exercise price to be determined by the Option Plan's administrative committee. Pursuant to the Option Plan, 600,000 shares of the Company's unissued Common Stock have been reserved and are available for issuance upon the exercise of options and rights granted under the Option Plan.

A summary of the status of the Option Plan as of December 31, 1998, 1997, and 1996 and changes during the years ending on those dates is presented below.

<TABLE>
<CAPTION>

	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	137,878	$ 7.81	104,478	$ 6.87	68,400	$ 6.24
Granted	65,000	16.65	34,600	10.65	41,250	7.99
Exercised	(3,000)	5.04	(1,200)	6.75	(1,398)	6.97
Forfeited	-	-	-	-	(3,774)	8.65
Outstanding at end of year	199,878	10.73	137,878	7.81	104,478	6.87
Options exercisable at year-end	71,895	7.12	50,570	6.58	41,727	6.48
Weighted-average fair value of options granted during the year		$ 6.93		$ 5.31		$ 3.32

</TABLE>

(Continued)

Options outstanding at year end 1998 were as follows:

<TABLE>
<CAPTION>

	Outstanding		Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise PRICE
<S>	<C>	<C>	<C>	<C>
$ 5.04 - $ 8.33	88,803	7 years	58,785	$ 6.43
9.67 - 13.00	46,075	9 years	13,110	10.20
13.88 - 18.50	65,000	10 years	-	-
Outstanding at year end	199,878	8.4 years	71,895	$ 7.12

</TABLE>

Grants under the Option Plan are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for incentive stock option grants under the Option Plan. Compensation cost charged to income for nonqualified stock option grants was $65, $42, and $26, for the years ended December 31, 1998, 1997, and 1996, respectively. Had the compensation cost for all of the stock-based compensation plans been determined based on the grant date using the estimated fair value under FAS 123, reported income and earnings per common share would have been reduced to the pro forma amounts shown below:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Net income for common stockholders			
As reported	$ 5,130	$ 4,506	$ 2,729
Pro forma	5,000	4,450	2,699
Basic earnings per common share			
As reported	1.23	1.09	1.00
Pro forma	1.20	1.08	0.99
Diluted earnings per common share			
As reported	1.22	1.08	0.99
Pro forma	1.19	1.07	0.98

</TABLE>

The fair value of the options granted in 1998, 1997, and 1996 is estimated at $6.93, $5.31, and $3.32 as of the date of grant using the Black Scholes options value model with the following assumptions:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Dividend yield	.92%	1.34%	1.74%
Risk-free interest rate	4.60%	6.36%	5.23%
Assumed forfeiture rate	-	-	-
Average life	6	6	6
Expected volatility of stock price	27.78%	24.04%	N/A

</TABLE>

(Continued)

UNIONBANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 12. EARNINGS PER SHARE

A reconciliation of the numerators and denominators for earnings per common share computations for the years ended December 31 is presented below (dollars and shares in thousands). The Convertible Preferred Stock is antidilutive for all years presented and has not been included in the diluted earnings per share calculation.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
BASIC EARNINGS PER SHARE			
Net income available to common stockholders	$ 5,130	$ 4,506	$ 2,729
Weighted average common shares outstanding	4,158	4,126	2,731
BASIC EARNINGS PER SHARE	$ 1.23	$ 1.09	$ 1.00
Weighted average common shares outstanding	4,158	4,126	2,731
Add: dilutive effect of assumed exercised stock			

(IN THOUSANDS, EXCEPT SHARE DATA)

options	53	42	26
Weighted average common and dilutive potential shares outstanding	4,211	4,168	2,757
DILUTED EARNINGS PER SHARE	$ 1.22	$ 1.08	$ .99

</TABLE>

NOTE 13. REGULATORY MATTERS

The Company and the Banks are subject to regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 1998, that the Company and the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 1998, the most recent notification from the corresponding regulatory agency categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Banks' categories.

(Continued)

<TABLE>
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	Actual		To Be Adequately Capitalized		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998						
Total capital (to risk-weighted assets)						
UnionBancorp, Inc.	$ 52,512	12.23%	$ 34,346	8.00%	$ 42,933	10.00%
UnionBank	29,207	11.03	21,193	8.00	26,491	10.00
UnionBank/Central	9,338	14.38	5,196	8.00	6,495	10.00
UnionBank/West	12,569	15.30	6,574	8.00	8,217	10.00
Tier I capital (to risk-weighted assets)						
UnionBancorp, Inc.	$ 47,297	11.02%	$ 17,173	4.00%	$ 25,760	6.00%
UnionBank	26,797	10.12	10,596	4.00	15,895	6.00
UnionBank/Central	8,815	13.57	2,598	4.00	3,897	6.00
UnionBank/West	11,775	14.33	3,287	4.00	4,930	6.00
Tier I leverage ratio (to average assets)						
UnionBancorp, Inc.	$ 47,297	7.66%	$ 24,703	4.00%	$ 30,879	5.00%
UnionBank	26,797	7.32	14,636	4.00	18,295	5.00
UnionBank/Central	8,815	8.61	4,095	4.00	5,119	5.00
UnionBank/West	11,775	9.41	5,007	4.00	6,259	5.00
As of December 31, 1997						
Total capital (to risk-weighted assets)						
UnionBancorp, Inc.	$ 45,725	11.86%	$ 30,855	8.00%	$ 38,569	10.00%
UnionBank	27,633	12.05	18,342	8.00	22,927	10.00

(IN THOUSANDS, EXCEPT SHARE DATA)

UnionBank/Central		8,542	17.24		3,964	8.00		4,956	10.00
UnionBank/West		11,069	14.09		6,284	8.00		7,854	10.00
Tier I capital (to risk-weighted assets)									
UnionBancorp, Inc.	$	41,180	10.68%	$	15,427	4.00%	$	23,141	6.00%
UnionBank		25,790	11.25		9,171	4.00		13,756	6.00
UnionBank/Central		8,116	16.38		1,982	4.00		2,973	6.00
UnionBank/West		10,430	13.28		3,142	4.00		4,713	6.00
Tier I leverage ratio (to average assets)									
UnionBancorp, Inc.	$	41,180	6.64%	$	24,781	4.00%	$	30,976	5.00%
UnionBank		25,790	8.16		12,647	4.00		15,808	5.00
UnionBank/Central		8,116	8.39		3,870	4.00		4,838	5.00
UnionBank/West		10,430	7.10		5,872	4.00		7,340	5.00

</TABLE>

(Continued)

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in immediate settlement of the instrument.

CASH AND CASH EQUIVALENTS

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate their fair values.

FEDERAL FUNDS SOLD

The stated carrying amounts of federal funds sold approximate their fair values.

SECURITIES

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amount of accrued interest receivable approximates its fair value.

LOANS

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed-rate loans are estimated using discounted cash flow analyses, applying the interest rates currently offered to borrowers for loans of similar credit quality and comparable payment terms. The carrying amount of accrued interest receivable approximates its fair value.

DEPOSITS

The fair values disclosed for demand deposits equal their carrying amounts, which represents the amount payable on demand. The carrying amounts for variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

(Continued)

BORROWED FUNDS

(IN THOUSANDS, EXCEPT SHARE DATA)

The stated carrying amounts of federal funds purchased and securities sold under agreements to repurchase, advances from the Federal Home Loan Bank, and notes payable approximate their fair values based on rates and terms currently available for borrowings with similar terms and maturities. The mortgage payable is calculated using discounted cash flows that apply interest rates being currently offered to borrowers of similar credit quality and comparable payment terms.

OFF-BALANCE-SHEET INSTRUMENTS

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

The estimated fair values of the Company's financial instruments were as follows:

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets				
Cash and cash equivalents	$ 24,613	$ 24,613	$ 22,826	$ 22,826
Federal funds sold	450	450	1,404	1,404
Securities	175,619	176,845	200,738	201,408
Loans	394,530	395,776	367,797	368,180
Accrued interest receivable	6,549	6,549	6,730	6,730
Financial liabilities				
Deposits	517,638	518,518	527,747	527,762
Federal funds purchased and securities sold under agreements to repurchase	14,855	14,855	11,761	11,761
Advances from the Federal Home Loan Bank	23,208	23,208	16,455	16,455
Notes payable	7,000	7,000	10,261	10,261
Accrued interest payable	3,486	3,486	3,819	3,819

</TABLE>

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

(Continued)

rights, the earnings potential of the trust operations, the trained work force, customer goodwill, and similar items.

NOTE 15. COMMITMENTS, CONTINGENCIES, AND CREDIT RISK

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal actions, which are not reflected in the consolidated financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

The Banks are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contractual amounts of these instruments reflect the extent of involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. The Banks use the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. Financial instruments whose contract amounts represent credit risk are as follows:

(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	Variable Rate Commitments	Fixed Rate Commitments	Total Commitments	Range of Rates on Fixed Rate Commitments
Commitments to extend credit and standby letters of credit				
December 31, 1998	$ 49,747	$ 43,146	$ 92,893	6.50 - 18.00%
December 31, 1997	$ 57,440	$ 15,540	$ 72,980	8.00 - 18.00%

</TABLE>

The Company also had a firm commitment from the secondary market to purchase approximately $8,269 of mortgage loans held for sale at December 31, 1998.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, the Banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable; inventory; property, plant, and equipment; and income producing commercial properties.

(Continued)

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan commitments to customers. The standby letters of credit are unsecured.

The Company has employment agreements with its executive officers and certain other management personnel. These agreements generally continue until terminated by the executive or the Company and provide for continued salary and benefits to the executive under certain circumstances. The agreements provide the employees with additional rights after a change of control of the Company occurs.

The Company does not engage in the use of interest rate swaps or futures, forwards, or option contracts.

NOTE 16. CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The primary source of funds for the Company is dividends from its subsidiaries. By regulation, the Banks are prohibited from paying dividends that would reduce regulatory capital below a specific percentage of assets without regulatory approval. As a practical matter, dividend payments are restricted to maintain prudent capital levels.

Condensed financial information for UnionBancorp, Inc. follows:

BALANCE SHEETS (PARENT COMPANY ONLY)

<TABLE>
<CAPTION>

	December 31, 1998	1997
ASSETS		
Cash and cash equivalents	$ 1,554	$ 633
Investment in subsidiaries	63,591	61,715
Premises and equipment	515	431
Other assets	384	278

	$ 66,044	$ 63,057

</TABLE>

(Continued)

UNIONBANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY

<S>	<C>	<C>
Liabilities		
Notes payable	$ 7,000	$ 10,000
Other liabilities	1,096	619
	8,096	10,619
Mandatory redeemable preferred stock	857	857
Stockholders' equity	57,091	51,581
	$ 66,044	$ 63,057

</TABLE>

INCOME STATEMENTS (PARENT COMPANY ONLY)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Dividends from subsidiaries	$ 3,851	$ 6,244	$ 1,227
Management fees and other	282	369	977
Gain on sale of subsidiaries	1,580	-	-
Interest expense	708	991	690
Other expenses	3,119	2,589	1,768
Income tax benefit	(1,156)	(1,321)	(545)
Equity in undistributed earnings of subsidiaries	2,347	411	2,543
NET INCOME	5,389	4,765	2,834
Less dividends on preferred stock	259	259	105
NET INCOME ON COMMON STOCK	$ 5,130	$ 4,506	$ 2,729

</TABLE>

(Continued)

UNIONBANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)
<TABLE>
<CAPTION>

Years Ended December 31,		
1998	1997	1996

<S> <C> <C> <C>

Cash flows from operating activities			
Net income	$ 5,389	$ 4,765	$ 2,834
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	107	90	53
Undistributed earnings of subsidiaries	(2,347)	(411)	(2,543)
Amortization of deferred compensation - stock options	65	42	26
Gain on sale of subsidiaries	(1,580)	-	-
(Increase) decrease in other assets	(106)	7	(145)
Increase (decrease) in other liabilities	477	472	7
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,005	4,965	232
Cash flows from investing activities			
Purchases of premises and equipment	(191)	(185)	(237)
Bank holding company acquisitions and sales	2,971	-	(16,939)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,780	(185)	(17,176)
Cash flows from financing activities			
Net increase (decrease) in notes payable	(3,000)	(3,180)	4,884
Dividend paid on common stock	(633)	(722)	(316)
Dividends paid on preferred stock	(259)	(259)	(53)
Redemption of qualifying directors' shares and exercise of stock options	28	8	(1)
Proceeds from issuance of common stock, net of cost	-	-	12,436
Net Cash Provided By (used in) Financing Activities	(3,864)	(4,153)	16,950
NET INCREASE IN CASH AND CASH EQUIVALENTS	921	627	6
Cash and cash equivalents			
Beginning of year	633	6	-
End of year	$ 1,554	$ 633	$ 6

</TABLE>

(Continued)

UNIONBANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 17. OTHER COMPREHENSIVE INCOME

Changes in other comprehensive income components and related taxes are as follows:
<TABLE>
<CAPTION>

<S> <C> <C> <C>

	Years Ended December 31,		
	1998	1997	1996
Change in unrealized gains (losses) on securities available-for-sale	$ (1,350)	$ 1,773	$ (105)
Reclassification adjustment for gains recognized in income	(56)	(193)	(20)
Net unrealized gains (losses)	(1,406)	1,580	(125)
Tax expense (benefit)	581	(650)	49
Other comprehensive income	$ (825)	$ 930	$ (76)

</TABLE>

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 18. SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and other operations. Loans, investments, and deposits provide the revenues in the banking segment, and mortgage banking, insurance, trust and holding company services are categorized as other segments. Prior to 1998, the Company did not offer insurance services.

The accounting policies used are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using net interest income. Information reported internally for performance assessment follows.

<TABLE>
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	Banking Segment	Other Segments	Consolidated Totals
<S>	<C>	<C>	<C>
1998			
Net interest income (loss)	$ 23,186	$ (724)	$ 22,462
Other revenue	4,834	3,237	8,071
Other expense	15,438	2,729	18,167
Noncash items			
Depreciation	1,460	219	1,679
Provision for loan loss	1,635	-	1,635
Goodwill and other intangibles	877	63	940
Segment profit	8,610	(498)	8,112
Segment assets	618,156	9,038	627,194

</TABLE>

(Continued)

<TABLE>
<CAPTION>

	Banking Segment	Other Segments	Consolidated Totals
<S>	<C>	<C>	<C>
1997			
Net interest income	$ 22,549	$ (945)	$ 21,604
Other revenue	3,915	1,267	5,182
Other expense	14,857	1,603	16,460
Noncash items			
Depreciation	1,340	134	1,474
Provision for loan loss	1,079	-	1,079
Goodwill and other intangibles	864	39	903
Segment profit	8,324	(1,454)	6,870
Segment assets	623,875	1,585	625,460
1996			
Net interest income	$ 14,777	$ (743)	$ 14,034
Other revenue	3,234	-	3,234
Other expense	10,669	377	11,046
Noncash items			
Depreciation	683	166	849
Provision for loan loss	1,178	-	1,178
Goodwill and other intangibles	341	51	392
Segment profit	5,140	(1,337)	3,803
Segment assets	641,387	637	642,024

</TABLE>

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

UnionBank, an Illinois state bank with its main office located Streator, Illinois.

UnionBank/West, an Illinois state bank with its main office located in Macomb, Illinois.

UnionBank/Central, an Illinois state bank with its main office located in Princeton, Illinois.

UnionBank/Northwest, an Illinois state bank with its main office located in Hanover, Illinois.

Prairie Bancorp, Inc., an Illinois corporaton located in Streator, Illinois.

Country Bancshares, Inc., an Illinois corporation located in Streator, Illinois.

UnionData Corp., Inc., an Illinois corporation located in Streator, Illinois.

UnionTrust Corporation, an Illinois corporation located in Ottawa, Illinois.

Union Financial Services, Inc., an Illinois corporation located in Ottawa, Illinois.

Exhibit 23.1

The Board of Directors
UnionBancorp,Inc.

We consent to the incorporation by reference of our report included herein, dated February 5, 1999, relating to the consolidated financial statements of UnionBancorp, Inc. (the "Company") as of December 31, 1998 and for the year then ended in the Registration Statement on Form S-8 filed by the Company with the Securities and Exchange Commission on November 8, 1996.

Crowe, Chizek and Company LLP

Oak Brook, Illinois
March 23, 1999

Exhibit 23.2

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in the Annual Report on Form 10-K under the Securities Exchange Act of 1934 of UnionBancorp, Inc. for the year ended December 31, 1998 of our report on the 1996 financial statements dated February 5, 1997.

/s/ McGladrey & Pullen, LLP

/McGladrey & Pullen, LLP/

Champaign, Illinois
March 20, 1999

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