FIRST BUSEY CORP /NV/
Form 10-Q
November 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended 9/30/2013

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**37-1078406** (I.R.S. Employer Identification No.)
100 W. University Ave.,	
Champaign, Illinois (Address of principal executive offices)	**61820** (Zip code)

Registrant s telephone number, including area code: **(217) 365-4516**

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at November 7, 2013**
Common Stock, $.001 par value	86,764,130

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

September 30, 2013 and December 31, 2012

(Unaudited)

		September 30, 2013		December 31, 2012
		(dollars in thousands)		
Assets				
Cash and due from banks (interest-bearing 2013 $80,209; 2012 $235,428)	$	198,668	$	351,255
Securities available for sale, at fair value		907,422		1,001,497
Securities held to maturity, at amortized cost		838		
Loans held for sale		17,500		40,003
Loans (net of allowance for loan losses 2013 $47,964; 2012 $48,012)		2,185,141		1,985,095
Premises and equipment		67,148		71,067
Goodwill		20,686		20,686
Other intangible assets		10,354		12,703
Cash surrender value of bank owned life insurance		40,400		39,485
Other real estate owned (OREO)		2,156		3,450
Deferred tax asset, net		37,674		39,373
Other assets		44,037		53,442
Total assets	$	3,532,024	$	3,618,056
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Non-interest-bearing	$	543,746	$	611,043
Interest-bearing		2,336,106		2,369,249
Total deposits	$	2,879,852	$	2,980,292
Securities sold under agreements to repurchase		156,510		139,024
Long-term debt				7,000
Junior subordinated debt owed to unconsolidated trusts		55,000		55,000
Other liabilities		26,283		27,943
Total liabilities	$	3,117,645	$	3,209,259
Stockholders Equity				
Series C Preferred stock, $.001 par value, 72,664 shares authorized, issued and outstanding, $1,000.00 liquidation value per share	$	72,664	$	72,664
Common stock, $.001 par value, authorized 200,000,000 shares; shares issued 88,287,132		88		88
Additional paid-in capital		593,458		594,411
Accumulated deficit		(228,222)		(240,321)
Accumulated other comprehensive income		6,361		13,542
Total stockholders equity before treasury stock	$	444,349	$	440,384
Common stock shares held in treasury at cost 2013 1,523,002; 2012 1,616,282		(29,970)		(31,587)
Total stockholders equity	$	414,379	$	408,797
Total liabilities and stockholders equity	$	3,532,024	$	3,618,056
Common shares outstanding at period end		86,764,130		86,670,850

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2013 and 2012

(Unaudited)

[redacted]				
Interest income:				
[redacted]				
Interest and dividends on investment securities:				
[redacted]				
Non-taxable interest income		2,938		2,667
[redacted]				
Interest expense:				
[redacted]				
Securities sold under agreements to repurchase		128		217
[redacted]				
Long-term debt		125		552
[redacted]				
Total interest expense	$	6,750	$	11,815
[redacted]				
Provision for loan losses		6,000		13,000
[redacted]				
Other income:				
[redacted]				
Commissions and brokers fees, net		1,819		1,578
[redacted]				
Service charges on deposit accounts		8,876		8,646
[redacted]				
Gain on sales of loans		8,944		8,924
[redacted]				
Other		3,637		5,679
[redacted]				
Other expense:				
[redacted]				
Employee benefits		8,754		8,791
[redacted]				
Furniture and equipment expense		3,687		3,858
[redacted]				
Amortization of intangible assets		2,349		2,481
[redacted]				
OREO expense		394		788
[redacted]				
Total other expense	$	84,726	$	87,375
[redacted]				
Income taxes		10,583		7,941
[redacted]				
Preferred stock dividends		2,725		2,725
[redacted]				
Basic earnings per common share	$	0.22	$	0.17
[redacted]				
Dividends declared per share of common stock	$	0.08	$	0.12

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended September 30, 2013 and 2012

(Unaudited)

		2013		2012
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	23,096	$	24,412
Interest and dividends on investment securities:				
Taxable interest income		3,162		3,610
Non-taxable interest income		978		989
Total interest income	$	27,236	$	29,011
Interest expense:				
Deposits	$	1,656	$	2,960
Securities sold under agreements to repurchase		44		63
Short-term borrowings				8
Long-term debt				106
Junior subordinated debt owed to unconsolidated trusts		303		329
Total interest expense	$	2,003	$	3,466
Net interest income	$	25,233	$	25,545
Provision for loan losses		2,000		3,500
Net interest income after provision for loan losses	$	23,233	$	22,045
Other income:				
Trust fees	$	4,035	$	3,960
Commissions and brokers fees, net		710		508
Remittance processing		2,105		2,068
Service charges on deposit accounts		3,126		2,962
Other service charges and fees		1,486		1,422
Gain on sales of loans		2,684		3,255
Security gains, net		82		511
Other		1,402		903
Total other income	$	15,630	$	15,589
Other expense:				
Salaries and wages	$	13,001	$	13,707
Employee benefits		2,580		2,773
Net occupancy expense of premises		2,055		2,237
Furniture and equipment expense		1,211		1,276
Data processing		2,606		3,568
Amortization of intangible assets		783		827
Regulatory expense		545		623
OREO expense (income)		(207)		273
Other		4,784		5,110
Total other expense	$	27,358	$	30,394
Income before income taxes	$	11,505	$	7,240
Income taxes		3,572		2,331
Net income	$	7,933	$	4,909
Preferred stock dividends		909		909
Net income available to common stockholders	$	7,024	$	4,000
Basic earnings per common share	$	0.08	$	0.05
Diluted earnings per common share	$	0.08	$	0.05
Dividends declared per share of common stock	$	0.04	$	0.04

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2013 and 2012

(Unaudited)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	(dollars in thousands)							
Net income	$	7,933	$	4,909	$	21,806	$	17,440
Other comprehensive income, before tax:								
Securities available for sale:								
Unrealized net (losses) gains on securities:								
Unrealized net holding gains (losses) arising during period	$	1,092	$	3,285	$	(12,125)	$	5,554
Reclassification adjustment for (gains) included in net income		(82)		(511)		(82)		(575)
Other comprehensive (loss) income, before tax	$	1,010	$	2,774	$	(12,207)	$	4,979
Income tax (benefit) expense related to items of other comprehensive income		416		1,142		(5,026)		2,050
Other comprehensive (loss) income, net of tax	$	594	$	1,632	$	(7,181)	$	2,929
Comprehensive income	$	8,527	$	6,541	$	14,625	$	20,369

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Nine Months Ended September 30, 2013 and 2012

(Unaudited)

(dollars in thousands, except per share amounts)

[redacted]								
Balance, December 31, 2011	$ 72,664	$ 88	$ 594,009	$ (238,085)	$ 13,124	$ (32,116)	$ (417)	$ 409,267
[redacted]								
Net income				17,440				17,440
[redacted]								
Issuance of treasury stock for employee stock purchase plan			(219)			299		80
[redacted]								
Cash dividends common stock at $0.12 per share				(10,395)				(10,395)
[redacted]								
Stock based employee compensation			722					722
[redacted]								
Other comprehensive loss					(7,181)			(7,181)
[redacted]								
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit			(1,414)			1,301		(113)
[redacted]								
Stock dividend equivalents restricted stock units at $0.08 per share			45	(45)				
[redacted]								

Preferred stock dividends				(2,725)				(2,725)
Balance, September 30, 2013	$ 72,664	$ 88	$ 593,458	$ (228,222)	$ 6,361	$ (29,970)	$	$ 414,379

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2013 and 2012

(Unaudited)

	2013	2012
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 21,806	$ 17,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	650	722
Depreciation and amortization	6,494	6,507
Provision for loan losses	6,000	13,000
Provision for deferred income taxes	6,725	7,205
Amortization of security premiums and discounts, net	6,821	7,166
Net security gains	(82)	(575)
Gain on sales of loans, net	(8,944)	(8,924)
Net (gains) losses on disposition of premises and equipment	(796)	72
Net gains on sales of OREO properties	(1)	(248)
Increase in cash surrender value of bank owned life insurance	(915)	(1,399)
Change in assets and liabilities:		
Decrease in other assets	9,177	2,830
Decrease in other liabilities	(1,192)	(796)
Decrease in interest payable	(386)	(592)
Decrease in income taxes receivable	228	1,105
Net cash provided by operating activities before activities for loans originated for sale	$ 45,585	$ 43,513
Loans originated for sale	(390,125)	(419,249)
Proceeds from sales of loans	421,572	419,007
Net cash provided by operating activities	$ 77,032	$ 43,271
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	10,229	55,599
Proceeds from maturities of securities classified available for sale	143,258	140,785
Purchase of securities classified available for sale	(78,358)	(330,434)
Purchase of securities held to maturity	(838)	
Net increase in loans	(207,063)	(6,117)
Proceeds from disposition of premises and equipment	2,849	5
Proceeds from sale of OREO properties	2,312	9,229
Purchases of premises and equipment	(2,279)	(6,919)
Net cash used in investing activities	$ (129,890)	$ (137,852)

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Nine Months Ended September 30, 2013 and 2012

(Unaudited)

	2013	2012
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	$ (82,944)	$ (87,513)
Net (decrease) increase in demand, money market and savings deposits	(17,496)	216,583
Cash dividends paid	(9,662)	(13,120)
Shares surrendered upon vesting of restricted stock units to cover tax obligations	(113)	
Principal payments on long-term debt	(7,000)	(12,000)
Net increase in securities sold under agreements to repurchase	17,486	3,886
Net cash (used in) provided by financing activities	$ (99,729)	$ 107,836
Net (decrease) increase in cash and due from banks	$ (152,587)	$ 13,255
Cash and due from banks, beginning	$ 351,255	$ 315,053
Cash and due from banks, ending	$ 198,668	$ 328,308
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 7,136	$ 12,408
Income taxes	$ 3,406	$ 630
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	$ 1,017	$ 9,015
Dividends accrued	$ 926	$ 924

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for Quarterly Reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The accompanying consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current presentation with no effect on net income or stockholders equity.

In preparing the accompanying consolidated financial statements, the Company s management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates which are particularly susceptible to significant change in the near term relate to the fair value of investment securities, the determination of the allowance for loan losses, and the valuation allowance on the deferred tax asset.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended September 30, 2013 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

Note 2: Recent Accounting Pronouncements

The Company reviews new accounting standards as issued. Information relating to accounting pronouncements issued and applicable to the Company in 2012 appear in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The Company has not identified any guidance that will have a material effect on our financial reporting that merits discussion.

Note 3: Securities

Securities are classified as held to maturity when First Busey has the ability and management has the positive intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income.

The amortized cost, unrealized gains and losses and fair values of securities classified available for sale and held to maturity are summarized as follows:

September 30, 2013:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Available for sale				
U.S. Treasury securities	$ 103,024	$ 385	$ (71)	$ 103,338
Obligations of U.S. government corporations and agencies	285,452	3,258	(341)	288,369
Obligations of states and political subdivisions	292,492	3,258	(2,463)	293,287
Residential mortgage-backed securities	185,584	4,802	(253)	190,133
Corporate debt securities	25,407	115	(32)	25,490
Total debt securities	891,959	11,818	(3,160)	900,617
Mutual funds and other equity securities	4,650	2,155		6,805
Total	$ 896,609	$ 13,973	$ (3,160)	$ 907,422

September 30, 2013:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Held to maturity				
Obligations of states and political subdivisions	$ 838	$ 6	$	$ 844
Total	$ 838	$ 6	$	$ 844

December 31, 2012:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Available for sale				
U.S. Treasury securities	$ 103,353	$ 1,303	$	$ 104,656
Obligations of U.S. government corporations and agencies	363,583	6,616	(5)	370,194
Obligations of states and political subdivisions	274,350	6,176	(238)	280,288
Residential mortgage-backed securities	210,139	7,576		217,715
Corporate debt securities	24,601	139	(26)	24,714

Total debt securities	976,026	21,810	(269)	997,567
Mutual funds and other equity securities	2,451	1,479		3,930
Total	$ 978,477	$ 23,289	$ (269)	$ 1,001,497

There were no held to maturity securities at December 31, 2012.

The amortized cost and fair value of debt securities available for sale and held to maturity as of September 30, 2013, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying the residential mortgage-backed securities may be called or prepaid without penalties; therefore, actual maturities could differ from the contractual maturities. All residential mortgage-backed securities were issued by U.S. government agencies and corporations.

	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)		(dollars in thousands)	
Due in one year or less	$ 151,701	$ 152,776	$	$
Due after one year through five years	478,362	481,436	234	235
Due after five years through ten years	182,805	185,574	496	499
Due after ten years	79,091	80,831	108	110
Total	$ 891,959	$ 900,617	$ 838	$ 844

Realized gains and losses related to sales of securities available for sale are summarized as follows:

	Three Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Gross security gains	$ 82	$ 511
Gross security (losses)		
Net security gains	$ 82	$ 511

	Nine Months Ended September 30,	
	2013	2012
	(dollars in thousands)	
Gross security gains	$ 82	$ 576
Gross security (losses)		(1)
Net security gains	$ 82	$ 575

The tax provision for the net realized gains was insignificant for the three and nine months ended September 30, 2013 and $0.2 million for the three and nine months ended September 30, 2012.

Investment securities with carrying amounts of $428.7 million and $489.1 million on September 30, 2013 and December 31, 2012, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at September 30, 2013 and December 31, 2012 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

September 30, 2013:	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(dollars in thousands)			
Available for sale						
U.S. Treasury securities	$ 36,520	$ 71	$	$	$ 36,520	$ 71
Obligations of U.S. government corporations and agencies	25,264	341			25,264	341
Obligations of states and political subdivisions	116,930	2,399	4,582	64	121,512	2,463
Residential mortgage-backed securities	15,183	253			15,183	253
Corporate debt securities	9,354	32			9,354	32
Total temporarily impaired securities	$ 203,251	$ 3,096	$ 4,582	$ 64	$ 207,833	$ 3,160

September 30, 2013:	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(dollars in thousands)			
Held to maturity						
Obligations of states and political subdivisions (1)	$ 183	$	$	$	$ 183	$
Total temporarily impaired securities	$ 183	$	$	$	$ 183	$

(1) Unrealized loss was less than one thousand dollars.

December 31, 2012:	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	Greater than 12 months Fair Value	Greater than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(dollars in thousands)			
Available for sale						
Obligations of U.S. government corporations and agencies	$ 10,155	$ 5	$	$	$ 10,155	$ 5
Obligations of states and political subdivisions	37,958	189	3,311	49	41,269	238
Corporate debt securities	15,207	26			15,207	26
Total temporarily impaired securities	$ 63,320	$ 220	$ 3,311	$ 49	$ 66,631	$ 269

Management evaluates securities available for sale for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether the Company has the intent to sell the security and it is more-likely-than-not we will have to sell the security before recovery of its cost basis.

The total number of securities in the investment portfolio in an unrealized loss position as of September 30, 2013 was 312, and represented a loss of 1.5% of the aggregate carrying value. Based upon a review of unrealized loss circumstances, the unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of receiving the contractual cash flows. The Company does not intend to sell the securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013.

Note 4: Loans

Geographic distributions of loans were as follows:

	September 30, 2013			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 511,567	$ 21,544	$ 26,444	$ 559,555
Commercial real estate	808,708	170,205	86,067	1,064,980
Real estate construction	56,590	11,828	2,630	71,048
Retail real estate	429,497	104,100	11,618	545,215
Retail other	9,195	514	98	9,807
Total	$ 1,815,557	$ 308,191	$ 126,857	$ 2,250,605
Less held for sale(1)				17,500
				$ 2,233,105
Less allowance for loan losses				47,964
Net loans				$ 2,185,141

(1)Loans held for sale are included in retail real estate.

	December 31, 2012			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 399,300	$ 10,861	$ 23,527	$ 433,688
Commercial real estate	777,752	138,170	65,210	981,132
Real estate construction	67,152	15,972	2,977	86,101
Retail real estate	435,911	112,052	11,873	559,836
Retail other	11,831	409	113	12,353
Total	$ 1,691,946	$ 277,464	$ 103,700	$ 2,073,110
Less held for sale(1)				40,003
				$ 2,033,107
Less allowance for loan losses				48,012
Net loans				$ 1,985,095

(1) Loans held for sale are included in retail real estate.

Net deferred loan origination costs included in the tables above were $0.4 million and $0.8 million as of September 30, 2013 and December 31, 2012, respectively.

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company s obligations to its stockholders, depositors, and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures designed to focus lending efforts on the types, locations and duration of loans most appropriate for its business model and markets. While not specifically limited, the Company attempts to focus its lending on short to intermediate-term (0-7 years) loans in geographies within 125 miles of its lending offices. The Company attempts to utilize government assisted lending programs, such as the Small Business Administration and United States Department of Agriculture lending programs, when prudent. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid primarily from cash flows of the borrowers, or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company s lending policies and procedures on a routine basis. Management routinely (at least quarterly) reviews the Company s allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company s underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at a minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in the Company s loan underwriting. As a part of underwriting, tangible positive or negative evidence of the borrower s integrity and character are sought out. Additional significant underwriting factors beyond location, duration, a sound and profitable cash flow basis and the borrower s character are the quality of the borrower s financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

Total borrowing relationships, including direct and indirect debt, are generally limited to $20 million, which is significantly less than the Company s regulatory lending limit. Borrowing relationships exceeding $20 million are reviewed by the Company s board of directors at least annually and more frequently by management. At no time is a borrower s total borrowing relationship permitted to exceed the Company s regulatory lending limit. Loans to related parties, including executive officers and the Company s various directorates, are reviewed for compliance with regulatory guidelines and by the Company s board of directors at least annually.

The Company maintains an independent loan review department that reviews the loans for compliance with the Company s loan policy on a periodic basis. In addition to compliance with this policy, the loan review process reviews the risk assessments made by the Company s credit department, lenders and loan committees. Results of these reviews are presented to management and the audit committee at least quarterly.

The Company s lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction loans, retail real estate loans, and other retail loans. A description of each of the lending areas can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The significant majority of the lending activity occurs in the Company s Illinois and Indiana markets, with the remainder in the Florida market. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

The Company utilizes a loan grading scale to assign a risk grade to all of its loans. Loans are graded on a scale of 1 through 10 with grades 2, 4 & 5 unused. A description of the general characteristics of the grades is as follows:

- *Grades 1, 3, 6* These grades include loans which are all considered strong credits, with grade 1 being investment or near investment grade. A grade 3 loan is comprised of borrowers that exhibit credit fundamentals that exceed industry standards and loan policy guidelines. A grade 6 loan is comprised of borrowers that exhibit acceptable credit fundamentals.

- *Grade 7-* This grade includes loans on management s Watch List and is intended to be utilized on a temporary basis for a pass grade borrower where a significant risk-modifying action is anticipated in the near future.

- *Grade 8-* This grade is for Other Assets Especially Mentioned loans that have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Company s credit position at some future date.

- *Grade 9*- This grade includes Substandard loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Assets so classified must have well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- *Grade 10-* This grade includes Doubtful loans that have all the characteristics of a substandard loan with additional factors that make collection in full highly questionable and improbable. Such loans are placed on non-accrual status and may be dependent on collateral having a value that is difficult to determine.

All loans are graded at the inception of the loan. All commercial and commercial real estate loans above $0.5 million with a grading of 7 are reviewed annually and grade changes are made as necessary. All real estate construction loans above $0.5 million, regardless of the grade, are reviewed annually and grade changes are made as necessary. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review. All loans above $0.5 million which are graded 8 are reviewed quarterly. Further, all loans graded 9 or 10 are reviewed at least quarterly.

Loans in the highest grades, represented by grades 1, 3, 6 and 7, totaled $2.1 billion at September 30, 2013 which increased from $1.8 billion at December 31, 2012. Loans in the lowest grades, represented by grades 8, 9 and 10, totaled $177.1 million at September 30, 2013, a decline from $228.1 million at December 31, 2012. The positive change in mix of loan grades began in 2012 and suggests a declining level of overall risk in the total loan portfolio.

The following table presents weighted average risk grades segregated by class of loans (excluding held for sale, non-posted and clearings) and geography:

	September 30, 2013					
	Weighted Avg. Risk Grade	**Grades 1,3,6**	**Grade 7**	**Grade 8**	**Grade 9**	**Grade 10**
	(dollars in thousands)					
Illinois/Indiana						
Commercial	4.70	$ 466,334	$ 46,901	$ 14,199	$ 9,073	$ 1,504
Commercial real estate	5.53	746,360	85,757	29,436	26,779	6,443
Real estate construction	7.24	17,759	16,365	12,420	10,166	2,510
Retail real estate	3.55	399,303	5,717	5,402	6,130	3,795
Retail other	2.98	9,134	154		5	
Total Illinois/Indiana		$ 1,638,890	$ 154,894	$ 61,457	$ 52,153	$ 14,252
Florida						
Commercial	5.85	$ 17,311	$ 244	$ 3,301	$ 688	$
Commercial real estate	6.19	119,046	21,299	11,531	15,179	3,150
Real estate construction	7.04	2,026	8,097	767	938	
Retail real estate	3.84	78,082	11,380	9,500	3,070	1,087
Retail other	1.75	514				
Total Florida		$ 216,979	$ 41,020	$ 25,099	$ 19,875	$ 4,237
Total		$ 1,855,869	$ 195,914	$ 86,556	$ 72,028	$ 18,489

	December 31, 2012					
	Weighted Avg. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10
	(dollars in thousands)					
Illinois/Indiana						
Commercial	4.68	$ 346,536	$ 46,201	$ 12,374	$ 15,677	$ 2,039
Commercial real estate	5.53	644,695	110,012	50,305	28,655	9,295
Real estate construction	7.21	30,710	7,809	14,162	14,084	3,364
Retail real estate	3.62	385,949	6,729	7,806	5,874	2,855
Retail other	3.34	11,563	372		9	
Total Illinois/Indiana		$ 1,419,453	$ 171,123	$ 84,647	$ 64,299	$ 17,553
Florida						
Commercial	5.91	$ 6,359	$ 3,544	$ 162	$ 796	$
Commercial real estate	6.36	80,232	20,667	13,238	19,279	4,754
Real estate construction	6.97	4,137	7,721	3,172	942	
Retail real estate	3.98	83,578	6,369	13,225	3,265	2,797
Retail other	2.80	391		18		
Total Florida		$ 174,697	$ 38,301	$ 29,815	$ 24,282	$ 7,551
Total		$ 1,594,150	$ 209,424	$ 114,462	$ 88,581	$ 25,104

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of the principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An age analysis of past due loans still accruing and non-accrual loans is as follows:

	September 30, 2013			
	Loans past due, still accruing			Non-accrual Loans
	30-59 Days	60-89 Days	90+Days	
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 337	$ 281	$ 88	$ 1,504
Commercial real estate	77		65	6,443
Real estate construction				2,510
Retail real estate	983	272	46	3,795
Retail other	18	1		
Total Illinois/Indiana	$ 1,415	$ 554	$ 199	$ 14,252
Florida				
Commercial	$	$	$	$
Commercial real estate				3,150
Real estate construction				
Retail real estate	314			1,087
Retail other				
Total Florida	$ 314	$	$	$ 4,237
Total	$ 1,729	$ 554	$ 199	$ 18,489

	December 31, 2012			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 111	$ 80	$ 19	$ 2,039
Commercial real estate	216	59	139	9,295
Real estate construction				3,364
Retail real estate	1,154	294	46	2,855
Retail other	2	2		
Total Illinois/Indiana	$ 1,483	$ 435	$ 204	$ 17,553
Florida				
Commercial	$	$	$	$
Commercial real estate				4,754
Real estate construction				
Retail real estate	364		52	2,797
Retail other		3		
Total Florida	$ 364	$ 3	$ 52	$ 7,551
Total	$ 1,847	$ 438	$ 256	$ 25,104

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled principal and interest payments when due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The following loans are assessed for impairment by the Company: loans 60 days or more past due and over $0.25 million, loans graded 8 over $0.5 million and loans graded 9 or below.

Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures unless such loans are the subject of a restructuring agreement.

The gross interest income that would have been recorded in the three and nine months ended September 30, 2013 if impaired loans had been current in accordance with their original terms was $0.4 million and $1.1 million, respectively. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three and nine months ended September 30, 2013.

The Company s loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where concessions have been granted to borrowers who have experienced financial difficulties. The Company will restructure loans for its customers who appear to be able to meet the terms of their loan over the long term, but who may be unable to meet the terms of the loan in the near term due to individual circumstances.

The Company considers the customer s past performance, previous and current credit history, the individual circumstances surrounding the current difficulties and the customer s plan to meet the terms of the loan in the future prior to restructuring the terms of the loan. Generally, all five primary areas of lending are restructured through short-term interest rate relief, short-term principal payment relief, short-term principal and interest payment relief, or forbearance (debt forgiveness). Once a restructured loan has gone 90+ days past due or is placed on non-accrual status, it is included in the non-performing loan totals. A summary of restructured loans as of September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Restructured loans:		
In compliance with modified terms	$ 12,452	$ 22,023
30 89 days past due		28
Included in non-performing loans	7,431	6,458
Total	$ 19,883	$ 28,509

All TDRs are considered to be impaired for purposes of assessing the adequacy of the allowance for loan losses and for financial reporting purposes. When the Company modifies a loan in a TDR, it evaluates any possible impairment similar to other impaired loans based on present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. If the Company determines that the value of the TDR is less than the recorded investment in the loan, impairment is recognized through an allowance estimate in the period of the modification and in periods subsequent to the modification.

The following table shows performing loans, segregated by class and geography, modified as TDRs that occurred during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
		(dollars in thousands)		
Illinois/Indiana				
Commercial		$		$
Commercial real estate	1	218	1	218
Real estate construction				
Retail real estate				
Retail other				
Total Illinois/Indiana	1	$ 218	1	$ 218
Florida				
Commercial		$		$
Commercial real estate			1	90
Real estate construction				
Retail real estate				
Retail other				
Total Florida		$	1	$ 90
Total	1	$ 218	2	$ 308

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
		(dollars in thousands)		
Illinois/Indiana				
Commercial		$	4	$ 1,455
Commercial real estate	1	2,069	1	2,069
Real estate construction			4	3,170
Retail real estate	1	53	11	1,875
Retail other				
Total Illinois/Indiana	2	$ 2,122	20	$ 8,569

Florida						
Commercial		$			$	
Commercial real estate						
Real estate construction						
Retail real estate				2		704
Retail other						
Total Florida		$		2	$	704
Total	2	$	2,122	22	$	9,273

The commercial real estate TDR totaling $0.2 million for the three and nine months ended September 30, 2013 consisted of a short-term principal payment relief modification. The commercial real estate TDR totaling $0.1 million for the nine months ended September 30, 2013 consisted of a modification for short-term interest rate relief.

The commercial real estate TDR for the three months ended September 30, 2012 consisted of a short-term interest rate relief modification. The retail real estate TDR for the three months ended September 30, 2012 consisted of a short-term principal payment relief modification. The commercial TDRs for the nine months ended September 30, 2012 consisted of four modifications for short-term principal payment relief. The commercial real estate TDR for the nine months ended September 30, 2012 consisted of a modification for short-term interest rate relief. The real estate construction TDRs for the nine months ended September 30, 2012 consisted of three modifications for short-term principal payment relief totaling $0.3 million and one modification of a forbearance agreement totaling $2.9 million. The retail real estate TDRs for the nine months ended September 30, 2012 consisted of four modifications for short-term interest rate relief totaling $1.0 million and nine modifications for short-term principal payment relief totaling $1.6 million.

The gross interest income that would have been recorded in the three and nine months ended September 30, 2013 and 2012 if performing TDRs had been in accordance with their original terms instead of modified terms was insignificant.

TDRs that were classified as non-performing and had payment defaults (a default occurs when a loan is 90 days or more past due or transferred to non-accrual), segregated by class and geography, are shown below:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Number of contracts		Recorded investment	Number of contracts		Recorded investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial		$			$	
Commercial real estate				1		1,650
Real estate construction				1		267
Retail real estate				4		1,091
Retail other						
Total Illinois/Indiana		$		6	$	3,008
Florida						
Commercial		$			$	
Commercial real estate						
Real estate construction						
Retail real estate	1		114	2		234
Retail other						
Total Florida	1	$	114	2	$	234
Total	1	$	114	8	$	3,242

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of contracts		Recorded investment	Number of contracts		Recorded investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	5	$	519	5	$	519
Commercial real estate						
Real estate construction				1		1,475
Retail real estate						
Retail other						
Total Illinois/Indiana	5	$	519	6	$	1,994
Florida						
Commercial		$			$	
Commercial real estate	3		1,451	3		1,451
Real estate construction						
Retail real estate	2		189	5		1,085
Retail other						
Total Florida	5	$	1,640	8	$	2,536
Total	10	$	2,159	14	$	4,530

The following tables provide details of impaired loans, segregated by category and geography. The unpaid contractual principal balance represents the recorded balance prior to any partial charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan. The average recorded investment is calculated using the most recent four quarters.

	September 30, 2013											
	Unpaid Contractual Principal Balance		Recorded Investment with No Allowance		Recorded Investment with Allowance		Total Recorded Investment		Related Allowance		Average Recorded Investment	
	(dollars in thousands)											
Illinois/Indiana												
Commercial	$	3,188	$	1,585	$	1,227	$	2,812	$	847	$	5,255
Commercial real estate		11,131		6,674		2,429		9,103		954		10,937
Real estate construction		6,065		4,037		618		4,655		218		6,815
Retail real estate		5,882		3,786		1,294		5,080		754		5,231
Retail other												
Total Illinois/Indiana	$	26,266	$	16,082	$	5,568	$	21,650	$	2,773	$	28,238
Florida												
Commercial	$		$		$		$		$		$	38
Commercial real estate		7,202		4,344		1,016		5,360		123		6,877
Real estate construction		430		430				430				1,733
Retail real estate		11,037		9,599		366		9,965		91		12,073
Retail other												
Total Florida	$	18,669	$	14,373	$	1,382	$	15,755	$	214	$	20,721
Total	$	44,935	$	30,455	$	6,950	$	37,405	$	2,987	$	48,959

	December 31, 2012					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 11,557	$ 7,214	$ 265	$ 7,479	$ 265	$ 10,109
Commercial real estate	17,656	12,020	1,288	13,308	634	14,607
Real estate construction	6,851	6,394		6,394		8,625
Retail real estate	6,251	4,666	530	5,196	140	5,206
Retail other						24
Total Illinois/Indiana	$ 42,315	$ 30,294	$ 2,083	$ 32,377	$ 1,039	$ 38,571
Florida						
Commercial	$	$	$	$	$	$ 271
Commercial real estate	9,533	5,988	585	6,573	235	6,506
Real estate construction	2,597	2,597		2,597		3,989
Retail real estate	16,518	12,673	1,373	14,046	483	15,254
Retail other						
Total Florida	$ 28,648	$ 21,258	$ 1,958	$ 23,216	$ 718	$ 26,020
Total	$ 70,963	$ 51,552	$ 4,041	$ 55,593	$ 1,757	$ 64,591

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

Allowance for Loan Losses

The allowance for loan losses represents an estimate of the amount of losses believed inherent in the Company s loan portfolio at the balance sheet date. The allowance for loan losses is evaluated geographically, by class of loans. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, the Company believes the allowance methodology is consistent with prior periods and the balance was adequate to cover the estimated losses in the Company s loan portfolio at September 30, 2013 and December 31, 2012.

The general portion of the Company s allowance contains two components: (i) a component for historical loss ratios, and (ii) a component for adversely graded loans. The historical loss ratio component is an annualized loss rate calculated using a sum-of-years digits weighted 20 quarter historical average.

The Company s component for adversely graded loans attempts to quantify the additional risk of loss inherent in the grade 8 and grade 9 portfolios. The grade 9 portfolio has an additional allocation placed on those loans determined by a one-year charge-off percentage for the respective loan type/geography. The minimum additional reserve on a grade 9 loan was 3.00% as of September 30, 2013 and December 31, 2012, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. As of September 30, 2013, the Company believed this minimum reserve remained adequate.

Grade 8 loans have an additional allocation placed on them determined by the trend difference of the respective loan type/geography s rolling 12 and 20 quarter historical loss trends. If the rolling 12 quarter average is higher (more current information) than the rolling 20 quarter average, the Company adds the additional amount to the allocation. The minimum additional amount for grade 8 loans was 1.00% as of September 30, 2013 and December 31, 2012, based upon a review of the differences between the rolling 12 and 20 quarter historical loss averages by region. As of September 30, 2013, the Company believed this minimum additional amount remained adequate.

The specific portion of the Company s allowance relates to loans that are impaired, which includes non-performing loans, TDRs and other loans determined to be impaired. The impaired loans are subtracted from the general loans and are allocated specific reserves as discussed above.

Impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using a combination of observable inputs, including recent appraisals discounted for collateral specific changes and current market conditions, and unobservable inputs based on customized discounting criteria.

The general quantitative allocation based upon historical charge off rates is adjusted for qualitative factors based on current general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) Management & Staff; (ii) Loan Underwriting, Policy and Procedures; (iii) Internal/External Audit & Loan Review; (iv) Valuation of Underlying Collateral; (v) Macro and Local Economic Factor; (vi) Impact of Competition, Legal & Regulatory Issues; (vii) Nature and Volume of Loan Portfolio; (viii) Concentrations of Credit; (ix) Net Charge-Off Trend; and (x) Non-Accrual, Past Due and Classified Trend. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Based on each component s risk factor, a qualitative adjustment to the reserve may be applied to the appropriate loan categories.

During the third quarter of 2013, the Company did not adjust any qualitative factors. The Company bases its assessment on several sources and will continue to monitor its qualitative factors on a quarterly basis.

The following table details activity on the allowance for loan losses. Allocation of a portion of the allowance to one category does not preclude its availability to absorb losses in other categories.

	For the Three Months Ended September 30, 2013					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
			(dollars in thousands)			
Illinois/Indiana						
Beginning balance	$ 7,514	$ 13,723	$ 2,514	$ 8,256	$ 240	$ 32,247
Provision for loan loss	363	316	(241)	1,024	49	1,511
Charged-off	(241)	(44)		(446)	(117)	(848)
Recoveries	37	145	21	112	59	374
Ending Balance	$ 7,673	$ 14,140	$ 2,294	$ 8,946	$ 231	$ 33,284
Florida						
Beginning balance	$ 1,505	$ 7,656	$ 2,693	$ 4,387	$ 3	$ 16,244
Provision for loan loss	687	1,504	(1,690)	(9)	(3)	489
Charged-off		(2,298)	2	(56)	(2)	(2,354)
Recoveries	22	2	225	47	5	301
Ending Balance	$ 2,214	$ 6,864	$ 1,230	$ 4,369	$ 3	$ 14,680

For the Nine Months Ended September 30, 2013	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Beginning balance	$ 6,597	$ 15,023	$ 2,527	$ 8,110	$ 322	$ 32,579
Provision for loan loss	1,617	(371)	558	1,592	14	3,410
Charged-off	(663)	(954)	(1,071)	(1,068)	(404)	(4,160)
Recoveries	122	442	280	312	299	1,455
Ending Balance	$ 7,673	$ 14,140	$ 2,294	$ 8,946	$ 231	$ 33,284
Florida						
Beginning balance	$ 1,437	$ 6,062	$ 2,315	$ 5,614	$ 5	$ 15,433
Provision for loan loss	722	3,356	(1,332)	(143)	(13)	2,590
Charged-off		(2,543)	(55)	(1,615)	(7)	(4,220)
Recoveries	55	(11)	302	513	18	877
Ending Balance	$ 2,214	$ 6,864	$ 1,230	$ 4,369	$ 3	$ 14,680

For the Three Months Ended September 30, 2012	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Beginning balance	$ 6,131	$ 15,373	$ 4,304	$ 7,320	$ 328	$ 33,456
Provision for loan loss	1,209	1,403	324	(358)	59	2,637
Charged-off	(1,194)	(1,716)	(538)	(463)	(128)	(4,039)
Recoveries	15	6		130	43	194
Ending Balance	$ 6,161	$ 15,066	$ 4,090	$ 6,629	$ 302	$ 32,248
Florida						
Beginning balance	$ 1,871	$ 7,426	$ 2,348	$ 5,756	$ 9	$ 17,410
Provision for loan loss	(125)	35	(64)	1,021	(4)	863
Charged-off	(6)	(229)	(176)	(1,162)		(1,573)
Recoveries	110	3	109	40	3	265
Ending Balance	$ 1,850	$ 7,235	$ 2,217	$ 5,655	$ 8	$ 16,965

For the Nine Months Ended September 30, 2012	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Beginning balance	$ 9,143	$ 18,605	$ 4,352	$ 6,473	$ 464	$ 39,037
Provision for loan loss	(281)	8,485	856	2,130	67	11,257
Charged-off	(2,880)	(12,332)	(1,280)	(2,517)	(405)	(19,414)
Recoveries	179	308	162	543	176	1,368
Ending Balance	$ 6,161	$ 15,066	$ 4,090	$ 6,629	$ 302	$ 32,248
Florida						
Beginning balance	$ 1,939	$ 8,413	$ 2,936	$ 6,160	$ 21	$ 19,469
Provision for loan loss	(522)	428	(644)	2,506	(25)	1,743
Charged-off	(90)	(1,649)	(336)	(3,247)	(1)	(5,323)

Recoveries	523	43	261	236	13	1,076
Ending Balance	$ 1,850	$ 7,235	$ 2,217	$ 5,655	$ 8	$ 16,965

The following table presents the allowance for loan losses and recorded investments in loans by category and geography:

	As of September 30, 2013					
	Commercial	Commercial Real Estate	Real Estate Construction (dollars in thousands)	Retail Real Estate	Retail Other	Total
Illinois/Indiana						
Amount allocated to:						
Loans individually evaluated for impairment	$ 847	$ 954	$ 218	$ 754	$	$ 2,773
Loans collectively evaluated for impairment	6,826	13,186	2,076	8,192	231	30,511
Ending Balance	$ 7,673	$ 14,140	$ 2,294	$ 8,946	$ 231	$ 33,284
Loans:						
Loans individually evaluated for impairment	$ 2,812	$ 9,103	$ 4,655	$ 5,080	$	$ 21,650
Loans collectively evaluated for impairment	535,199	885,672	54,565	419,517	9,293	1,904,246
Ending Balance	$ 538,011	$ 894,775	$ 59,220	$ 424,597	$ 9,293	$ 1,925,896
Florida						
Amount allocated to:						
Loans individually evaluated for impairment	$	$ 123	$	$ 91	$	$ 214
Loans collectively evaluated for impairment	2,214	6,741	1,230	4,278	3	14,466
Ending Balance	$ 2,214	$ 6,864	$ 1,230	$ 4,369	$ 3	$ 14,680
Loans:						
Loans individually evaluated for impairment	$	$ 5,360	$ 430	$ 9,965	$	$ 15,755
Loans collectively evaluated for impairment	21,544	164,845	11,398	93,153	514	291,454
Ending Balance	$ 21,544	$ 170,205	$ 11,828	$ 103,118	$ 514	$ 307,209

	As of December 31, 2012					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Amount allocated to:						
Loans individually evaluated for impairment	$ 265	$ 634	$	$ 140	$	$ 1,039
Loans collectively evaluated for impairment	6,332	14,389	2,527	7,970	322	31,540
Ending Balance	$ 6,597	$ 15,023	$ 2,527	$ 8,110	$ 322	$ 32,579
Loans:						
Loans individually evaluated for impairment	$ 7,479	$ 13,308	$ 6,394	$ 5,196	$	$ 32,377
Loans collectively evaluated for impairment	415,348	829,654	63,735	404,867	11,944	1,725,548
Ending Balance	$ 422,827	$ 842,962	$ 70,129	$ 410,063	$ 11,944	$ 1,757,925
Florida						
Amount allocated to:						
Loans individually evaluated for impairment	$	$ 235	$	$ 483	$	$ 718
Loans collectively evaluated for impairment	1,437	5,827	2,315	5,131	5	14,715
Ending Balance	$ 1,437	$ 6,062	$ 2,315	$ 5,614	$ 5	$ 15,433
Loans:						
Loans individually evaluated for impairment	$	$ 6,573	$ 2,597	$ 14,046	$	$ 23,216
Loans collectively evaluated for impairment	10,861	131,597	13,375	95,724	409	251,966
Ending Balance	$ 10,861	$ 138,170	$ 15,972	$ 109,770	$ 409	$ 275,182

Note 5: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either daily or within one year from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company s safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The following table sets forth the distribution of securities sold under agreements to repurchase and weighted average interest rates:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Balance	$ 156,510	$ 139,024
Weighted average interest rate at end of period	0.15%	0.15%
Maximum outstanding at any month end	$ 156,510	$ 146,710
Average daily balance	$ 131,093	$ 132,150
Weighted average interest rate during period (1)	0.13%	0.21%

(1)The weighted average interest rate is computed by dividing total interest for the year-to-date period by the average daily balance outstanding.

Note 6: Earnings Per Common Share

Earnings per common share have been computed as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(in thousands, except per share data)			
Net income available to common stockholders	$ 7,024	$ 4,000	$ 19,081	$ 14,715
Shares:				
Weighted average common shares outstanding	86,801	86,654	86,745	86,634
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	275	8	299	9
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	87,076	86,662	87,044	86,643
Basic earnings per common share	$ 0.08	$ 0.05	$ 0.22	$ 0.17
Diluted earnings per common share	$ 0.08	$ 0.05	$ 0.22	$ 0.17

Basic earnings per share are computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding.

Diluted earnings per share are determined by dividing net income available to common stockholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options, warrants and vesting of restricted stock units and use of proceeds to purchase treasury stock at the average market price for the period. If the average market price for the period is less than the strike price of a stock option or warrant, that option or warrant is considered anti-dilutive and is excluded from the calculation of common stock equivalents. If the total employee proceeds of a restricted stock unit exceed the average market price for the period, that restricted stock unit is considered anti-dilutive and is excluded from the calculation of common stock equivalents. At September 30, 2013, 648,529 outstanding options, 573,833 warrants, and 380,252 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents. At September 30, 2012, 804,968 outstanding options, 573,833 warrants, and 752,209 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 7: Stock-based Compensation

Under the terms of the Company s 2010 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises from its inventory of treasury stock. As of September 30, 2013, the Company held 1,523,002 shares in treasury, with 895,655 additional shares authorized for repurchase under its stock repurchase plan. The repurchase plan has no expiration date and expires when the Company has repurchased all of the remaining authorized shares.

A description of the 2010 Equity Incentive Plan can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The Company s 2010 Equity Incentive Plan is designed to encourage ownership of its common stock by its employees and directors, to provide additional incentive for them to promote the success of its business, and to attract and retain talented personnel. All of the Company s employees and directors, and those of its subsidiaries, are eligible to receive awards under the plan.

A summary of the status of and changes in the Company s stock option awards for the nine months ended September 30, 2013 follows:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	857,468	$	17.01	
Granted				
Exercised				
Forfeited	156,439		16.00	
Outstanding at end of period	701,029	$	17.24	2.32
Exercisable at end of period	701,029	$	17.24	2.32

The Company did not recognize any compensation expense related to stock options for the three and nine months ended September 30, 2013 or 2012.

A summary of the changes in the Company s stock unit awards for the nine months ended September 30, 2013, is as follows:

	Restricted Stock Units	Director Deferred Stock Units	Total		Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	736,412	32,991	769,403	$	4.92
Granted	351,452	28,800	380,252		5.02
Dividend Equivalents Earned	9,903	946	10,849		4.59
Vested	(102,530)	(33,937)	(136,467)		4.70
Forfeited	(20,014)		(20,014)		5.23
Non-vested at end of period	975,223	28,800	1,004,023	$	4.98
Outstanding at end of period	975,223	86,666	1,061,889	$	4.98

All recipients earn quarterly dividend equivalents on their respective units. These dividend equivalents are not paid out during the vesting period, but instead entitle the recipients to additional units. Therefore, dividends earned each quarter will compound based upon the updated unit balances. Upon vesting/delivery, shares are expected to be issued from treasury.

On August 1, 2013, under the terms of the 2010 Equity Incentive Plan, the Company granted 367,094 restricted stock units (RSUs) to members of management and directors. As the stock price on the grant date of August 1, 2013 was $5.04, total compensation cost to be recognized is $1,850,154. This cost will be recognized over a period of one to five years. Per the respective agreements, 28,800 RSUs vest over a requisite service period of one year, 14,881 RSUs vest over a requisite service period of two years, and the remaining 323,413 RSUs vest over a requisite service period of five years. Subsequent to each requisite service period, the awards will vest 100%.

On March 26, 2013, under the terms of the 2010 Equity Incentive Plan, the Company granted 13,158 RSUs to a certain member of management. As the stock price on the grant date of March 26, 2013 was $4.56, total compensation cost to be recognized is $60,000. This cost will be recognized over a period of one to three years. Per the respective agreements, 4,386 RSUs vest over a requisite service period of one year, 4,386 RSUs vest over a requisite service period of two years, and the remaining 4,386 RSUs vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

A listing of RSUs granted in 2012 under the terms of the 2010 Equity Incentive Plan can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The Company recognized $0.3 million of compensation expense related to non-vested stock units for the three months ended September 30, 2013 and 2012. The Company recognized $0.7 million of compensation expense related to non-vested stock units for the nine months ended September 30, 2013 and 2012. As of September 30, 2013, there was $3.4 million of total unrecognized compensation cost related to these non-vested stock units. This cost is expected to be recognized over a period of 3.4 years.

Note 8: Income Taxes

At September 30, 2013, the Company was not under examination by any tax authority.

Note 9: Outstanding Commitments and Contingent Liabilities

Legal Matters

The Company and its subsidiaries are parties to legal actions which arise in the normal course of their business activities. In the opinion of management, the ultimate resolution of these matters is not expected to have a material effect on the financial position or the results of operations of the Company and its subsidiaries.

Credit Commitments and Contingencies

The Company and its subsidiary are parties to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company and its subsidiary s exposure to credit loss are represented by the contractual amount of those commitments. The Company and its subsidiary use the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. A summary of the contractual amount of the Company and its subsidiary s exposure to off-balance-sheet risk relating to the Company and its subsidiary s commitments to extend credit and standby letters of credit follows:

	September 30, 2013	December 31, 2012
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 560,234	$ 483,373
Standby letters of credit	10,035	12,305

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company and its subsidiary upon extension of credit, is based on management s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company and its subsidiary to guarantee the performance of a customer s obligation to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions and primarily have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company and its subsidiary hold collateral, which may include accounts receivable, inventory, property and equipment, and income producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company and its subsidiary would be required to fund the commitment. The maximum potential amount of future payments the Company and its subsidiary could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company and its subsidiary would be entitled to seek recovery from the customer. As of September 30, 2013 and December 31, 2012, no amounts were recorded as liabilities for the Company and its subsidiary s potential obligations under these guarantees.

As of September 30, 2013, the Company had no futures, forwards, swaps or option contracts, or other financial instruments with similar characteristics with the exception of rate lock commitments on mortgage loans to be held for sale.

Note 10: Reportable Segments and Related Information

The Company has three reportable segments, Busey Bank, FirsTech and Busey Wealth Management. Busey Bank provides a full range of banking services to individual and corporate customers through its branch network in downstate Illinois, through its branch in Indianapolis, Indiana, and through its branch network in southwest Florida. FirsTech provides remittance processing for online bill payments, lockbox and walk-in payments. Busey Wealth Management is the parent company of Busey Trust Company, which provides a full range of asset management, investment and fiduciary services to individuals, businesses and foundations, tax preparation and philanthropic advisory services.

The Company s three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies.

The segment financial information provided below has been derived from the internal accounting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Following is a summary of selected financial information for the Company s business segments:

	Goodwill		Total Assets	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
	(dollars in thousands)		(dollars in thousands)	
Goodwill & Total Assets:				
Busey Bank	$	$	$ 3,448,907	$ 3,567,637
FirsTech	8,992	8,992	26,946	26,401
Busey Wealth Management	11,694	11,694	27,855	26,653
All Other			28,316	(2,635)
Total	$ 20,686	$ 20,686	$ 3,532,024	$ 3,618,056

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands)		(dollars in thousands)	
Interest Income:				
Busey Bank	$ 27,167	$ 28,935	$ 81,597	$ 88,093
FirsTech	13	15	39	48
Busey Wealth Management	62	62	179	192
All Other	(6)	(1)	(4)	(1)
Total interest income	$ 27,236	$ 29,011	$ 81,811	$ 88,332
Interest Expense:				
Busey Bank	$ 1,709	$ 3,138	$ 5,858	$ 10,828
FirsTech				
Busey Wealth Management				
All Other	294	328	892	987
Total interest expense	$ 2,003	$ 3,466	$ 6,750	$ 11,815
Other Income:				
Busey Bank	$ 9,447	$ 9,850	$ 29,542	$ 29,592
FirsTech	2,167	2,094	6,445	6,418
Busey Wealth Management	4,540	4,061	13,286	12,332
All Other	(524)	(416)	(1,219)	897
Total other income	$ 15,630	$ 15,589	$ 48,054	$ 49,239
Net Income:				
Busey Bank	$ 6,963	$ 4,642	$ 19,243	$ 14,859
FirsTech	259	237	807	746
Busey Wealth Management	1,173	780	3,126	2,647
All Other	(462)	(750)	(1,370)	(812)
Total net income	$ 7,933	$ 4,909	$ 21,806	$ 17,440

Note 11: Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect the Company s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to those Company assets and liabilities that are carried at fair value.

There were no transfers between levels during the quarter ended September 30, 2013. Corporate debt securities were transferred to level 2 as of March 31, 2013 because the Company could no longer obtain evidence of unadjusted quoted prices.

In general, fair value is based upon quoted market prices, when available. If such quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect, among other things, counterparty credit quality and the company s creditworthiness as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing level 1 and level 2 measurements. For mutual funds and other equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date and have been classified as level 1 in the ASC 820 fair value hierarchy. For all other securities, the Company obtains fair value measurements from an independent pricing service. The independent pricing service evaluations are based on market data. The independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed income securities do not trade on a daily basis, the independent pricing service evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, the independent pricing service uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and develop prepayment scenarios. The models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

The market inputs that the independent pricing service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The independent pricing service also monitors market indicators, industry and economic events. Information of this nature is a trigger to acquire further market data. For certain security types, additional inputs may be used or some of the market inputs may not be applicable. Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on a given day. Because the data utilized was observable, the securities have been classified as level 2 in the ASC 820 fair value hierarchy.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
September 30, 2013				
Available for sale				
U.S. Treasury securities	$	$ 103,338	$	$ 103,338
Obligations of U.S. government corporations and agencies		288,369		288,369
Obligations of states and political subdivisions		293,287		293,287
Residential mortgage-backed securities		190,133		190,133
Corporate debt securities		25,490		25,490
Mutual funds and other equity securities	6,805			6,805
	$ 6,805	$ 900,617	$	$ 907,422
December 31, 2012				
Available for sale				
U.S. Treasury securities	$	$ 104,656	$	$ 104,656
Obligations of U.S. government corporations and agencies		370,194		370,194
Obligations of states and political subdivisions		280,288		280,288
Residential mortgage-backed securities				