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
	30-59 Days	60-89 Days	90+Days	Loans
	(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 (dollars in thousands)					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
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	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
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

	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
			As of December 31, 2012 (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,		Nine Months Ended September 30,	
	2013	2012	2013	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				217,715				217,715
Corporate debt securities		24,714						24,714
Mutual funds and other equity securities		3,930						3,930
	$	28,644	$	972,853	$		$	1,001,497

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired Loans. The Company does not record loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Impaired loans measured at fair value typically consist of loans on non-accrual status and restructured loans in compliance with modified terms. Collateral values are estimated using a combination of observable inputs, including recent appraisals and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all impaired loan fair values have been classified as level 3 in the ASC 820 fair value hierarchy.

OREO. Non-financial assets and non-financial liabilities measured at fair value include OREO (upon initial recognition or subsequent impairment). OREO properties are measured using a combination of observable inputs, including recent appraisals, and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all OREO fair values have been classified as level 3 in the ASC 820 fair value hierarchy.

The following table summarizes assets and liabilities measured at fair value on a non-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				
Impaired loans	$	$	$ 3,963	$ 3,963
OREO			1,192	1,192
December 31, 2012				
Impaired loans	$	$	$ 2,284	$ 2,284
OREO			511	511

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized level 3 inputs to determine fair value:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
September 30, 2013				
Impaired loans				-0.8% to -100.0%
	$ 3,963	Appraisal of collateral	Appraisal adjustments	(-34.9%)
OREO				-6.1% to -100.0%
	1,192	Appraisal of collateral	Appraisal adjustments	(-48.7%)

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The estimated fair values of financial instruments that are reported at amortized cost in the Company s consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(dollars in thousands)		
Financial assets:				
Level 2 inputs:				
Cash and due from banks	$ 198,668	$ 198,668	$ 351,255	$ 351,255
Securities held to maturity	838	844		
Loans held for sale	17,500	17,828	40,003	40,971
Accrued interest receivable	12,371	12,371	12,275	12,275

Level 3 inputs:								
Loans, net		2,185,141		2,189,051		1,985,095		2,006,588
Financial liabilities:								
Level 2 inputs:								
Deposits	$	2,879,852	$	2,882,254	$	2,980,292	$	2,987,524
Securities sold under agreements to repurchase		156,510		156,510		139,024		139,024
Long-term debt						7,000		7,120
Junior subordinated debt owed to unconsolidated trusts		55,000		55,000		55,000		55,000
Accrued interest payable		742		742		1,128		1,128

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of the financial condition of First Busey Corporation and subsidiaries (referred to herein as First Busey, Company, we, or our) at September 30, 2013 (unaudited), as compared with June 30, 2013 (unaudited), December 31, 2012 and September 30, 2012 (unaudited), and the results of operations for the three and nine months ended September 30, 2013 and 2012 (unaudited), and the three months ended June 30, 2013 (unaudited) when applicable. Management s discussion and analysis should be read in conjunction with the Company s consolidated financial statements and notes thereto appearing elsewhere in this quarterly report, as well as the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

EXECUTIVE SUMMARY

Operating Results

Net income for the third quarter of 2013 was $7.9 million and net income available to common stockholders was $7.0 million, or $0.08 per fully-diluted common share, as compared to net income of $7.4 million and $6.5 million of net income available to common stockholders for the second quarter of 2013, or $0.08 per fully-diluted common share. Net income was $3.0 million higher than the third quarter of 2012, when the Company reported net income of $4.9 million and net income available to common stockholders of $4.0 million, or $0.05 per fully-diluted common share. The Company s 2013 year-to-date net income through September 30 was $21.8 million and net income available to common stockholders was $19.1 million, or $0.22 per fully-diluted common share, compared to net income of $17.4 million and net income available to common stockholders of $14.7 million, or $0.17 per fully-diluted common share, for the comparable period of 2012.

Net income growth relative to the prior year was driven by positive trends in credit quality, which reduced our provision for loan loss in 2013 to levels resembling historical Company norms prior to the economic downturn. The $2.0 million loan loss provision in the third quarter of 2013 was consistent with the prior two quarters, marking four-year lows in quarterly credit costs as our market areas show signs of strengthening and credit quality continued to improve. In addition, actions taken in recent quarters to reduce operating expenses favorably impacted third quarter results and are expected to continue positively affecting future earnings. As cost management measures have been implemented, we maintain our priority of exceptional customer service.

Net interest margin rose to 3.20% for the third quarter of 2013 as compared to 3.17% for the second quarter of 2013 but decreased from 3.25% for the third quarter of 2012. The net interest margin for the first nine months of 2013 decreased to 3.16% compared to 3.26% for the same period of 2012. Since the first quarter of 2013, our net interest margin has improved due to the development of a more profitable asset mix from increased loan balances, while we actively continued to bring down interest expense and optimize funding costs.

Busey Wealth Management s net income of $1.2 million for the third quarter of 2013 rose 3.5% from the second quarter of 2013 and 50.4% from the third quarter of 2012. Busey Wealth Management s net income for the first nine months of 2013 was $3.1 million as compared to $2.6 million for the first nine months of 2012. Growth in assets under care accompanied by market trends positively impacted the quarter-over-quarter and year-over-year results. FirsTech s net income of $0.3 million for the third quarter of 2013 was comparable to the second quarter of 2013, and slightly higher than the $0.2 million recorded for the third quarter of 2012. FirsTech s year-to-date net income of $0.8 million was slightly higher than the $0.7 million recorded for the comparable period of 2012.

Asset Quality

While much internal focus has been directed toward organic growth, our commitment to credit quality remains strong, as evidenced by another quarter of meaningful progress across a range of credit indicators. At September 30, 2013, various asset quality measures were at their best quarter-end levels in recent years. We continue to expect gradual improvement in our overall asset quality during 2013; however, this remains dependent upon market-specific economic conditions, and specific measures may fluctuate from quarter to quarter. The key metrics are as follows:

SELECTED FINANCIAL HIGHLIGHTS

(dollars in thousands)

	As of and for the Three Months Ended			
	September 30, 2013	**June 30, 2013**	**December 31, 2012**	**September 30, 2012**
ASSET QUALITY				
Gross loans(1)	**$ 2,250,605**	$ 2,159,098	$ 2,073,110	$ 2,035,319
Commercial loans(2)	**1,695,583**	1,580,351	1,500,921	1,473,450
Allowance for loan losses	**47,964**	48,491	48,012	49,213
Non-performing loans				
Non-accrual loans	**18,489**	20,274	25,104	25,129
Loans 90+ days past due	**199**	771	256	59
Non-performing loans, segregated by geography				
Illinois/ Indiana	**14,451**	16,030	17,757	17,377
Florida	**4,237**	5,015	7,603	7,811
Loans 30-89 days past due	**2,283**	3,683	2,285	7,895
Other non-performing assets	**2,156**	2,617	3,450	8,486
Non-performing assets to total loans and non-performing assets	**0.9%**	1.1%	1.4%	1.6%
Allowance as a percentage of non-performing loans	**256.7%**	230.4%	189.3%	195.4%
Allowance for loan losses to loans	**2.1%**	2.3%	2.3%	2.4%

(1) Includes loans held for sale.

(2) Includes loans categorized as commercial, commercial real estate and real estate construction.

As a result of the Company s strategic investment in loan growth, the total loan portfolio as of September 30, 2013 increased $91.5 million from June 30, 2013 and increased $215.3 million from September 30, 2012. Loan growth was driven by the $115.2 million increase in commercial balances from June 30, and $222.1 million increase from September 30, 2012. In addition to overall loan growth, the Company experienced loan growth in the highest credit grades, while the volume of the lowest credit grades decreased.

Net charge-offs for the third quarter increased $1.2 million from the second quarter of 2013 but decreased by $2.6 million from the third quarter of 2012. The linked quarter net charge-off activity represents normal fluctuations, while longer-term trends reflect the significantly improved quality of the loan portfolio.

Overview and Strategy

Our emphasis on maximizing stockholder value is evidenced this period by the upward momentum in earnings per share on a quarterly and year-over-year basis. We are inspired by the positive traction in earnings and loan growth during the quarter, powered by the strategic investments of prior periods and the outstanding commitment of our talented associates. Loan growth from the prior year has been well-balanced across our footprint, as we service the funding needs of our local businesses which support our communities.

Our third quarter was highlighted by meaningful progress in commercial loan growth which increased our net interest margin and propelled us to the successful attainment of targets under the SBLF program. The achievement of this important milestone under SBLF will be highly impactful to growth in earnings in future periods.

With the confidence that our hard-won efforts are drivers of true change, we move ahead from a stronger base that enhances further growth opportunities through organic and external channels, and serves as a solid foundation for continued success going forward. We understand there is still great work to be done and embrace the resolve to drive our business in a continually positive direction for the success of our Pillars - our customers, associates, communities and shareholders.

Economic Conditions of Markets

Our primary markets in stable micro-urban communities of downstate Illinois are distinct from the dense competitive landscapes of Chicago and the smaller rural populations of southern Illinois and they have strong industrial, academic and healthcare employment bases. Our primary downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, familiar and stable organizations. Although our downstate Illinois and Indiana markets experienced economic distress in recent years, they did not experience it to the level of many other areas, including our southwest Florida market. While future economic conditions remain uncertain, we believe our markets have generally stabilized following a few years of economic downturn and, as a whole, continue to show signs of improvement.

Champaign County is home to the University of Illinois Urbana/Champaign (U of I), the University s primary campus. U of I has in excess of 44,000 students. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is currently home to Archer Daniels Midland (ADM), a Fortune 100 company and one of the largest agricultural processors in the world. ADM s presence in Macon County supports many derivative businesses in the agricultural processing arena. During the third quarter of 2013, ADM announced its intent to move corporate headquarters from the Decatur area. While the exact number of job relocations hasn t been disclosed, the move could impact our customers and we will continue to monitor the situation. Additionally, Macon County is home to Millikin University, and its healthcare providers serve a significant role in the market. McLean County is home to State Farm, Country Financial, Illinois State University and Illinois Wesleyan University. State Farm, a Fortune 100 company, is the largest employer in McLean County, and Country Financial and the universities provide additional stability to a growing area of downstate Illinois. Peoria County is home to Caterpillar, a Fortune 100 company, and Bradley University, in addition to a large healthcare presence serving much of the western portion of downstate Illinois. The institutions noted above, coupled with a large agricultural sector, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

Southwest Florida has shown continuing signs of improvement in areas such as unemployment and home sales since 2011. In addition, median sales prices in Florida continue to be on the rise. As southwest Florida s economy is based primarily on tourism and the secondary/retirement residential market, declines in discretionary spending brought on by uncertain economic conditions caused damage to that economy and, the recent improvement in certain economic indicators notwithstanding, we expect it will take southwest Florida a number of years to return to peak economic strength.

The largest portion of the Company s customer base is within the State of Illinois, the financial condition of which is among the most troubled of any state in the United States with credit downgrade concerns, severe pension under-funding, recurring bill payment delays, and budget deficits. Additionally, the Company is located in markets with significant universities and healthcare companies, which rely heavily on state funding and contracts. The State of Illinois continues to be behind on payments to its vendors and government sponsored entities. Further and continued payment lapses by the State of Illinois to its vendors and government sponsored entities may have significant, negative effects on our primary market areas.

OPERATING PERFORMANCE

NET INTEREST INCOME

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percent of average earning assets.

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 35%. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax favorable assets. After factoring in the tax favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

The following tables show the consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for the interest-bearing liabilities, and the related interest rates for the periods, or as of the dates, shown. The tables also show, for the periods indicated, a summary of the changes in interest earned and interest expense resulting from changes in volume and rates for the major components of interest-earning assets and interest-bearing liabilities. All average information is provided on a daily average basis.

AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	2013			2012			Change in income/ expense due to(1)		
	Average Balance	**Income/ Expense**	**Yield/ Rate(3)**	**Average Balance**	**Income/ Expense**	**Yield/ Rate(3)**	**Average Volume**	**Average Yield/Rate**	**Total Change**
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits	$ 114,012	$ 74	0.26%	$ 203,650	$ 132	0.26%	$ (58)	$	$ (58)
Investment securities									
U.S. Government obligations	405,316	1,339	1.31%	470,912	1,943	1.64%	(247)	(357)	(604)
Obligations of states and political subdivisions(1)	295,024	1,975	2.66%	246,494	1,804	2.91%	338	(167)	171
Other securities	224,293	1,278	2.26%	268,527	1,254	1.86%	(225)	249	24
Loans(1) (2)	2,162,138	23,162	4.25%	2,014,586	24,488	4.84%	1,742	(3,068)	(1,326)
Total interest-earning assets(1)	$ 3,200,783	$ 27,828	3.45%	$ 3,204,169	$ 29,621	3.68%	$ 1,550	$ (3,343)	$ (1,793)
Cash and due from banks	111,168			78,974					
Premises and equipment	68,230			71,172					
Allowance for loan losses	(48,393)			(50,199)					
Other assets	160,572			184,313					
Total Assets	$ 3,492,360			$ 3,488,429					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 48,595	$ 7	0.06%	$ 41,083	$ 16	0.15%	$ 2	$ (11)	$ (9)
Savings deposits	203,836	11	0.02%	195,542	46	0.09%	2	(37)	(35)
Money market deposits	1,468,892	420	0.11%	1,390,501	717	0.21%	39	(336)	(297)
Time deposits	618,181	1,218	0.78%	731,571	2,181	1.19%	(301)	(662)	(963)
Short-term borrowings:									
Repurchase agreements	129,485	44	0.13%	116,141	63	0.22%	7	(26)	(19)
Other			%		8	%		(8)	(8)
Long-term debt			%	8,330	106	5.06%	(53)	(53)	(106)
Junior subordinated debt owed to unconsolidated trusts	55,000	303	2.19%	55,000	329	2.38%		(26)	(26)
Total interest-bearing liabilities	$ 2,523,989	$ 2,003	0.31%	$ 2,538,168	$ 3,466	0.54%	$ (304)	$ (1,159)	$ (1,463)
Net interest spread(1)			3.14%			3.14%			
Noninterest-bearing deposits	529,480			508,030					
Other liabilities	29,299			26,734					
Stockholders equity	409,592			415,497					
Total Liabilities and Stockholders Equity	$ 3,492,360			$ 3,488,429					

Interest income / earning assets(1)	$ 3,200,783	$ 27,828	3.45%	$ 3,204,169	$ 29,621	3.68%			
Interest expense / earning assets	$ 3,200,783	$ 2,003	0.25%	$ 3,204,169	$ 3,466	0.43%			
Net interest margin(1)		$ 25,825	3.20%		$ 26,155	3.25%	$ 1,854	$ (2,184)	$ (330)

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(1) On a tax-equivalent basis assuming a federal income tax rate of 35% for 2013 and 2012.

(2) Non-accrual loans have been included in average loans.

(3) Annualized.

AVERAGE BALANCE SHEETS AND INTEREST RATES

NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	2013			2012			Change in income/ expense due to(1)		
	Average Balance	Income/ Expense	Yield/ Rate(3)	Average Balance	Income/ Expense	Yield/ Rate(3)	Average Volume	Average Yield/Rate	Total Change
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits	$ 208,275	$ 387	0.25%	$ 265,126	$ 503	0.25%	$ (106)	$ (10)	$ (116)
Investment securities									
U.S. Government obligations	434,160	4,456	1.37%	451,808	6,053	1.79%	(229)	(1,368)	(1,597)
Obligations of states and political subdivisions(1)	288,273	5,786	2.68%	206,667	4,848	3.13%	1,708	(770)	938
Other securities	227,662	3,507	2.06%	275,950	3,915	1.90%	(727)	319	(408)
Loans(1) (2)	2,094,640	69,457	4.43%	2,009,358	74,728	4.97%	3,053	(8,324)	(5,271)
Total interest-earning assets(1)	$ 3,253,010	$ 83,593	3.44%	$ 3,208,909	$ 90,047	3.75%	$ 3,699	$ (10,153)	$ (6,454)
Cash and due from banks	90,865			77,787					
Premises and equipment	69,783			70,227					
Allowance for loan losses	(48,455)			(53,307)					
Other assets	166,487			188,247					
Total Assets	$ 3,531,690			$ 3,491,863					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 49,274	$ 24	0.07%	$ 41,440	$ 54	0.17%	$ 9	$ (39)	$ (30)
Savings deposits	208,722	46	0.03%	196,422	194	0.13%	11	(159)	(148)
Money market deposits	1,469,850	1,348	0.12%	1,352,144	2,417	0.24%	194	(1,263)	(1,069)
Time deposits	646,666	4,159	0.86%	752,886	7,361	1.31%	(936)	(2,266)	(3,202)
Short-term borrowings:									
Repurchase agreements	131,093	128	0.13%	127,905	217	0.23%	5	(94)	(89)
Other		15	%		26	%		(11)	(11)
Long-term debt	3,062	125	5.46%	15,585	552	4.73%	(501)	74	(427)
Junior subordinated debt owed to unconsolidated trusts	55,000	905	2.20%	55,000	994	2.41%		(89)	(89)
Total interest-bearing liabilities	$ 2,563,667	$ 6,750	0.35%	$ 2,541,382	$ 11,815	0.62%	$ (1,218)	$ (3,847)	$ (5,065)
Net interest spread(1)			3.09%			3.13%			
Noninterest-bearing deposits	528,544			510,718					
Other liabilities	28,562			26,732					
Stockholders equity	410,917			413,031					
Total Liabilities and Stockholders Equity	$ 3,531,690			$ 3,491,863					

Interest income / earning assets(1)	$	3,253,010	$	83,593	3.44%	$	3,208,909	$	90,047	3.75%						
Interest expense / earning assets	$	3,253,010	$	6,750	0.28%	$	3,208,909	$	11,815	0.49%						
Net interest margin(1)			$	76,843	3.16%			$	78,232	3.26%	$	4,917	$	(6,306)	$	(1,389)

(1) On a tax-equivalent basis assuming a federal income tax rate of 35% for 2013 and 2012.

(2) Non-accrual loans have been included in average loans.

(3) Annualized.

Average earning assets decreased nominally by $3.4 million for the three month period ended September 30, 2013 as compared to the same period of 2012. Average earning assets increased $44.1 million for the nine month period ended September 30, 2013 as compared to the same period of 2012. Average loans increased $147.6 million and $85.3 million for the three and nine month periods ended September 30, 2013 compared to the same periods of 2012, respectively; however, at a lower yield than 2012. Our previously discussed loan pipeline and continued emphasis on commercial loan growth has translated into increased loans during 2013. Loans generally have notably higher yields compared to interest-bearing bank deposits and securities, leading to a positive effect on net interest margin.

Our average interest-bearing bank deposits decreased $89.6 million and $56.9 million for the three and nine month periods ended September 30, 2013 compared to the same periods of 2012, respectively. Average securities balances decreased by $61.3 million for the three month period and increased $15.7 million for the nine month period ended September 30, 2013 compared to the same periods of 2012, respectively.

Average interest-bearing liability balances decreased $14.2 million for the three month period ended September 30, 2013 as compared to the same period of 2012. Average interest-bearing liability balances increased $22.3 million for the nine month period ended September 30, 2013 as compared to the same period of 2012. Core deposits are an important low cost source of funding and maintaining adequate levels has allowed the Company to reduce more expensive non-core funding.

Interest income, on a tax-equivalent basis, decreased $1.8 million and $6.5 million for the three and nine month periods ended September 30, 2013 as compared to the same periods of 2012, respectively. The interest income decline related to lower yields earned on assets in a low interest rate environment. Interest expense decreased $1.5 million and $5.1 million for the three and nine month periods ended September 30, 2013 as compared to the same periods of 2012, respectively. The interest expense declines were primarily a result of decreases in interest rates offered by the Company on certain deposit products as the interest rate environment remains low.

Net interest margin

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 3.20% for the three month period ended September 30, 2013 from 3.25% for the same period in 2012 and decreased to 3.16% for the nine month period ended September 30, 2013 from 3.26% for the same period in 2012.

Quarterly net interest margins for 2013 and 2012 are as follows:

	2013	**2012**
First Quarter	3.10%	3.31%
Second Quarter	3.17%	3.21%
Third Quarter	3.20%	3.25%
Fourth Quarter		3.20%

The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, also on a tax-equivalent basis, was 3.14% for the three month period ended September 30, 2013 and 2012 and was 3.09% for the nine month period ended September 30, 2013 compared to 3.13% for the same period in 2012.

Since the first quarter of 2013, net interest margin has improved and the Company is encouraged by a growing loan-to-deposit ratio. The 2013 improvement is due to the development of a stronger asset mix from increased loan balances, while we actively continued to bring down interest expense and optimize funding costs. We have limited ability to improve margin through funding rate decreases due to the historically low interest rate environment. We believe further improvements in margin will be achieved through continued deployment of our liquid funds at higher yields as we expect to redeploy cash and securities into our loan portfolio at improved yields.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for accounting policies underlying the recognition of interest income and expense.

OTHER INCOME

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
	(dollars in thousands)					
Trust fees	$ 4,035	$ 3,960	1.9%	$ 13,956	$ 13,245	5.4%
Commissions and brokers fees, net	710	508	39.8%	1,819	1,578	15.3%
Remittance processing	2,105	2,068	1.8%	6,288	6,346	(0.9)%
Service charges on deposit accounts	3,126	2,962	5.5%	8,876	8,646	2.7%
Other service charges and fees	1,486	1,422	4.5%	4,452	4,246	4.9%
Gain on sales of loans	2,684	3,255	(17.5)%	8,944	8,924	0.2%
Security gains, net	82	511	(84.0)%	82	575	(85.7)%
Other	1,402	903	55.3%	3,637	5,679	(36.0)%
Total other income	$ 15,630	$ 15,589	0.3%	$ 48,054	$ 49,239	(2.4)%

Combined wealth management revenue, trust and commissions and brokers fees, net, increased for the three and nine month periods ended September 30, 2013 as compared to the same periods in 2012. The increase was led by organic growth, which increased assets under care (AUC), and positive market trends. AUC averaged $4.5 billion as of September 30, 2013 compared to $4.0 billion at September 30, 2012. Continued growth in new AUC driven by our wealth management teams during 2013 suggest future income will also be positively impacted as wealth management revenues are typically highly correlated to AUC.

Remittance processing revenue relates to our payment processing company, FirsTech. FirsTech s revenue increased for the three month period ended September 30, 2013 as compared to the same period in 2012 and decreased slightly for the nine month period ended September 30, 2013 as compared to the same period of 2012. FirsTech adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and beyond.

Overall, service charges on deposit accounts combined with other service charges and fees increased for the three and nine month periods ended September 30, 2013 as compared to the same periods in 2012. Evolving regulation and changing behaviors by our client base may impact the revenue derived from charges on deposit accounts going forward.

Gain on sales of loans decreased for the three month period ended September 30, 2013 as compared to the same period in 2012. Refinance activity declined starting in the second quarter of 2013 relative to the 2012 period due to increased market interest rates; although, with generally robust production activity for the first six months of 2013, gain on sales of loans increased slightly for the nine month period ended September 30, 2013 as compared to the same period in 2012. While we expect total production volume to decrease during the remainder of 2013 due to increased interest rates, these fee revenues will continue to provide a good balance to our revenue stream and represent a valued service to our clients and communities to refinance and purchase homes.

Security gains, net decreased for the three and nine month periods ended September 30, 2013 as compared to the same periods in 2012. Approximately $35 million of U.S. Treasuries were sold in September 2012 to offset a portion of the costs of the core processing conversion which was completed during that same period. Please see *Note 3 Securities* in the Notes to Unaudited Consolidated Financial Statements for a full discussion of securities.

Other income increased for the three month period ended September 30, 2013 as compared to the same period in 2012, primarily due to a fixed asset loss in 2012 compared to a gain in 2013. Other income decreased for the nine month period ended September 30, 2013 as compared to the same period in 2012. The nine month decrease was primarily due to the income fluctuation in the Company s private equity investment funds. The 2012 gain related to income earned from an investment in a local, community-focused fund. The gain was non-recurring; therefore, the Company did and does not expect other income to show significant increases in future periods.

OTHER EXPENSE

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	% Change	2013	2012	% Change
	(dollars in thousands)					
Compensation expense:						
Salaries and wages	$ 13,001	$ 13,707	(5.2)%	$ 39,342	$ 38,996	1.0%
Employee benefits	2,580	2,773	(7.0)%	8,754	8,791	(0.4)%
Total compensation expense	$ 15,581	$ 16,480	(5.5)%	$ 48,096	$ 47,757	0.7%
Net occupancy expense of premises	2,055	2,237	(8.1)%	6,340	6,598	(3.9)%
Furniture and equipment expenses	1,211	1,276	(5.1)%	3,687	3,858	(4.4)%
Data processing	2,606	3,568	(27.0)%	7,813	8,366	(6.6)%
Amortization of intangible assets	783	827	(5.3)%	2,349	2,481	(5.3)%
Regulatory expense	545	623	(12.5)%	1,808	1,869	(3.3)%
OREO expense	(207)	273	(175.8)%	394	788	(50.0)%
Other	4,784	5,110	(6.4)%	14,239	15,658	(9.1)%
Total other expense	$ 27,358	$ 30,394	(10.0)%	$ 84,726	$ 87,375	(3.0)%
Income taxes	$ 3,572	$ 2,331	53.2%	$ 10,583	$ 7,941	33.3%
Effective rate on income taxes	31.0%	32.2%		32.7%	31.3%	
Efficiency ratio	64.23%	71.71%		66.00%	66.90%	

Total compensation expense decreased for the three months ended September 30, 2013 as compared to the same period in 2012 but increased slightly for the nine month period ended September 30, 2013 as compared to the same period of 2012. Full-time equivalent employees decreased to 857 at September 30, 2013 from 928 at September 30, 2012 and 948 at December 31, 2012. During 2012, we engaged in a strategic investment in talent to build out targeted areas of our business to support growth initiatives. We also committed to a careful examination of all areas of the Company, seeking sensible opportunities to reduce cost and enhance efficiency. That evaluation resulted in personnel reductions and other cost containment efforts in early 2013 which contributed to a decrease in total compensation expense starting in the second quarter of 2013. In addition, as disclosed in the proxy statement for the annual meeting of stockholders held on May 22, 2013, our senior management also proposed a reduction in the compensation of our named executive officers to the appropriate oversight committee of the board of directors. The reduction was approved and became effective in April of 2013. Senior management sought to emphasize their individual commitments to the discipline required to support efficiency initiatives and the future long-term success of the Company.

Combined occupancy expenses and furniture and equipment expenses decreased for the three and nine month periods ended September 30, 2013 as compared to the same period in 2012. We continue to evaluate our operations for appropriate cost control measures while seeking improvements in service delivery to our customers.

Data processing expense decreased for the three and nine month periods ended September 30, 2013 as compared to the same period in 2012, largely due to a core system conversion in the third quarter of 2012. We continue to enhance measures for data safety and risk containment, while supporting the developing product needs of our customers including online banking and mobile capabilities.

Amortization of intangible assets expense decreased as we are now in the sixth year of amortization arising from our merger with Main Street Trust, Inc. The amortization is on an accelerated basis; thus, exclusive of any further acquisitions in the future, we expect amortization expense to continue to gradually decline.

Regulatory expense decreased for the three and nine months ended September 30, 2013 as compared to the same periods in 2012. We anticipate that our regulatory expenses will remain at current levels for the near future.

Our costs associated with OREO, such as collateral preservation and legal fees, decreased for the three and nine months ended September 30, 2013 as compared to the same period in 2012. This expense fluctuates based on the management of commercial properties and the operating activity associated with the properties that we hold throughout the year.

Other expense decreased for the three and nine months ended September 30, 2013 as compared to the same periods in 2012 primarily as a result of a widespread reduction in expenses due to an enhanced emphasis on cost control.

The effective rate on income taxes, or income taxes divided by income before taxes, of 31.0% and 32.7% for the three and nine months ended September 30, 2013, respectively, was lower than the combined federal and state statutory rate of approximately 41% due to fairly stable amounts of tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a portion of our taxable income. As taxable income increases, we expect our effective tax rate to increase.

The efficiency ratio represents total other expense, less amortization charges, as a percentage of tax equivalent net interest income plus other income, excluding the effects of security gains and losses. The efficiency ratio, which is a non-GAAP financial measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio of 64.23% for the three month period ended September 30, 2013 improved from 71.71% in the comparable period in 2012. The efficiency ratio for the first nine months of 2013 was 66.00%, as compared to 66.90% for the same period of 2012. Efficiency ratios have been influenced throughout the past two years by a number of events, such as our 2012 core conversion and branch closures. The process of examining appropriate avenues to improve efficiency is expected to continue as a focus in future periods.

FINANCIAL CONDITION

SIGNIFICANT BALANCE SHEET ITEMS

	September 30, 2013	December 31, 2012 (dollars in thousands)	% Change
Assets			
Securities available for sale	$ 907,422	$ 1,001,497	(9.4)%
Securities held to maturity	838		100.0%
Loans, net, including loans held for sale	2,202,641	2,025,098	8.8%
Total assets	$ 3,532,024	$ 3,618,056	(2.4)%
Liabilities			
Deposits:			
Noninterest-bearing	$ 543,746	$ 611,043	(11.0)%
Interest-bearing	2,336,106	2,369,249	(1.4)%
Total deposits	$ 2,879,852	$ 2,980,292	(3.4)%
Securities sold under agreements to repurchase	$ 156,510	$ 139,024	12.6%
Long-term debt		7,000	(100.0)%
Total liabilities	$ 3,117,645	$ 3,209,259	(2.9)%

Stockholders equity	$	414,379	$	408,797	1.4%

First Busey s balance sheet at September 30, 2013 decreased as compared with its balance sheet at December 31, 2012.

Securities available for sale decreased by $94.1 million, or 9.4%, at September 30, 2013 compared to December 31, 2012, while net loans, including loans held for sale, increased by $177.5 million, or 8.8% during the same period, as the Company s strategic investment and continued emphasis on loan growth took shape in the second and third quarters of 2013. In addition to overall loan growth, the Company experienced loan growth in the highest credit grades, while the volume of the lowest credit grades decreased.

Liabilities decreased by $91.6 million, or 2.9%, at September 30, 2013 compared to December 31, 2012. Total deposits decreased $100.4 million, or 3.4%, at September 30, 2013 compared to December 31, 2012 due to seasonality and typical balance fluctuations in large commercial deposits. Securities sold under agreements to repurchase increased $17.5 million, or 12.6%, due to changing customer preferences and fluctuations in balances, while long-term debt decreased $7.0 million, at September 30, 2013 compared to December 31, 2012 due to payment at maturity. We remain strongly core deposit funded at 76.6% of total assets with ample liquidity and significant market share in the communities we serve.

Stockholders equity increased to $414.4 million at September 30, 2013 as compared to $408.8 million at December 31, 2012. This increase was the result of earnings during the first nine months of 2013, partially offset by dividends paid in the second and third quarter and decreases in the market value of our securities portfolio. No dividends on common stock were paid in the first quarter, as the Company had accelerated its 2013 first quarter dividend of $0.04 per common share into the fourth quarter of 2012 due to uncertainty surrounding U.S. tax policy and our desire to maximize stockholder value and return while potentially reducing stockholder dividend income tax burden.

ASSET QUALITY

Loan Portfolio

Geographic distributions of loans by category 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.

We are encouraged by the positive momentum occurring in our loan portfolio. The total loan portfolio as of September 30, 2013 increased $177.5 million from December 31, 2012; gross commercial balances (consisting of commercial, commercial real estate and real estate construction loans) increased $194.7 million from December 31, 2012. The September 30, 2013 retail real estate portfolio decreased slightly from December 31, 2012, mainly due to a decrease in loans held for sale. In the second quarter of 2013, the Company purchased $25.4 million in performing home equity lines of credit at a floating rate to support an optimal mix of earning asset growth, which helped offset the decrease in loans held for sale. Achieving meaningful organic growth has been a significant focus for us and our commitment to credit quality remains strong, as evidenced by another quarter of meaningful progress across a range of credit indicators as discussed further below.

Allowance for loan losses

Our allowance for loan losses was $48.0 million, or 2.1% of loans, at September 30, 2013, compared to $48.0 million, or 2.3% of loans, at December 31, 2012.

Typically, when we move loans into nonaccrual status, the loans are collateral dependent and charged down to the fair value of our interest in the underlying collateral less estimated costs to sell. Our loan portfolio is collateralized primarily by real estate.

We continue to attempt to identify problem loan situations on a proactive basis. Once problem loans are identified, adjustments to the provision for loan losses are made based upon all information available at that time. The provision reflects management s analysis of additional allowance for loan losses necessary to cover probable losses in our loan portfolio.

As of September 30, 2013, management believed the level of the allowance and coverage of non-performing loans to be appropriate based upon the information available. However, additional losses may be identified in our loan portfolio as new information is obtained. We may need to provide for additional loan losses in the future as management continues to identify potential problem loans and gains further information concerning existing problem loans.

First Busey does not originate or hold any Alt-A or subprime loans or investments.

Provision for Loan Losses

The provision for loan losses is a current charge against income and represents an amount which management believes is sufficient to maintain an appropriate allowance for known and probable losses in the loan portfolio. In assessing the appropriateness of the allowance for loan losses, management considers the size and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, historical loan loss experience and credit quality of the portfolio. When a determination is made by management to charge-off a loan balance, such write-off is charged against the allowance for loan losses.

Our provision for loan losses was $2.0 million during the third quarter of 2013 compared to $3.5 million in the same period of 2012. Our provision for loan losses was $6.0 million during the first nine months of 2013 compared to $13.0 million in the same period of 2012. The relative provision expenses during 2013 and 2012 were reflective of management s assessment of the lower level of risk in the portfolio in 2013.

Sensitive assets include non-accrual loans, loans on our classified loan reports and other loans identified as having more than reasonable potential for loss. Management reviews sensitive assets on at least a quarterly basis for changes in the customers ability to pay and changes in valuation of underlying collateral in order to estimate probable losses. The majority of these loans are being repaid in conformance with their contracts.

Non-performing Loans

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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth information concerning non-performing loans as of each of the dates indicated:

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
		(dollars in thousands)		
Non-accrual loans	$ 18,489	$ 20,274	$ 23,001	$ 25,104
Loans 90+ days past due and still accruing	199	771	204	256
Total non-performing loans	$ 18,688	$ 21,045	$ 23,205	$ 25,360
OREO	$ 2,156	$ 2,617	$ 2,632	$ 3,450
Total non-performing assets	$ 20,844	$ 23,662	$ 25,837	$ 28,810
Allowance for loan losses	$ 47,964	$ 48,491	$ 47,773	$ 48,012
Allowance for loan losses to loans	2.1%	2.3%	2.3%	2.3%
Allowance for loan losses to non-performing loans	256.7%	230.4%	205.9%	189.3%
Non-performing loans to loans, before allowance for loan losses	0.8%	1.0%	1.1%	1.2%
Non-performing loans and OREO to loans, before allowance for loan losses	0.9%	1.1%	1.3%	1.4%

We continue to drive positive trends across a range of credit indicators and expect to see further improvements in non-performing assets in the future, but at a more moderate pace of change than in recent years as the economic recovery process matures. Total non-performing assets were $20.8 million at September 30, 2013, compared to $28.8 million at December 31, 2012.

As of September 30, 2013, the Bank had charged-off $7.5 million of principal balance on loans that were on non-accrual status at September 30, 2013. Partial charge-offs reduce the reported principal of the balance of the loan, whereas, a specific allocation of allowance for loan losses does not reduce the reported principal balance of the loan. Non-accrual loans are reported net of charge-offs, but include related specific allocations of the allowance for loan losses. In summary, if we had not charged-off $7.5 million in loans, our non-accrual loans would have been that amount greater than the $18.5 million reported.

Potential Problem Loans

Potential problem loans are those loans which are not categorized as impaired, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with present loan repayment terms. Management assesses the potential for loss on such loans as it would with other problem loans and has considered the effect of any potential loss in determining its provision for probable loan losses. Potential problem loans of $53.1 million at September 30, 2013 were less than the $58.1 million reported at December 31, 2012. The balance of potential problem loans is a reflection of continued economic challenges, however we do not believe the potential losses will be as great as seen in the past. Management continues to monitor these credits and anticipates that restructurings, guarantees, additional collateral or other planned actions will result in full repayment of the debts. As of September 30, 2013, management identified no other loans that represent or result from trends or uncertainties which management reasonably expected to materially impact future operating results, liquidity or capital resources. As of September 30, 2013, management was not aware of any information about any other credits which caused management to have serious doubts as to the ability of such borrower(s) to comply with the loan repayment terms.

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LIQUIDITY

Liquidity management is the process by which we ensure that adequate liquid funds are available to meet the present and future cash flow obligations arising in the daily operations of our business. These financial obligations consist of needs for funds to meet commitments to borrowers for extensions of credit, fund capital expenditures, honor withdrawals by customers, pay dividends to stockholders and pay operating expenses. Our most liquid assets are cash and due from banks, interest-bearing bank deposits, and federal funds sold. The balances of these assets are dependent on the Company s operating, investing, lending and financing activities during any given period.

First Busey s primary sources of funds consist of deposits, investment maturities and sales, loan principal repayments, and capital funds. Additional liquidity is provided by repurchase agreements, the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank, and brokered deposits. Management intends to satisfy long-term liquidity needs primarily through retention of capital funds.

Based upon the level of investment securities that reprice within 30 days and 90 days, as of September 30, 2013, management believed that adequate liquidity existed to meet all projected cash flow obligations. We seek to achieve a satisfactory degree of liquidity through actively managing both assets and liabilities. Asset management guides the proportion of liquid assets to total assets, while liability management monitors future funding requirements and prices liabilities accordingly.

OFF-BALANCE-SHEET ARRANGEMENTS

At September 30, 2013, the Company had outstanding standby letters of credit of $10.0 million and commitments to extend credit of $560.2 million. Since these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. These commitments are made in the ordinary course of business.

CAPITAL RESOURCES

The ability of the Company to pay cash dividends to its stockholders and to service its debt historically was dependent on the receipt of cash dividends from its subsidiaries. However, Busey Bank sustained significant losses during 2008 and 2009 resulting in pressure on capital, which has been enhanced through injections by the Company. State chartered banks have certain statutory and regulatory restrictions on the amount of cash dividends they may pay. Due to the significant retained earnings deficit and the Company s desire to maintain a strong capital position at Busey Bank, dividends were not paid out of Busey Bank in 2011 or 2012. Until such time as retained earnings have been restored, Busey Bank will not be permitted to pay dividends and we will need to request permission from Busey Bank s primary regulator to receive any capital out of Busey Bank. On January 22, 2013, with the approval of its primary regulator, Busey Bank transferred $50.0 million to the Company representing a return of capital and associated surplus as a result of an amendment to Busey Bank s charter.

The Company and Busey Bank are subject to regulatory capital requirements administered by federal and state banking agencies that involve the quantitative measure of their 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 Busey Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and, for the Bank, Tier 1 capital (as defined) to average assets (as defined in the regulations). Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, may have a direct material effect on our financial statements. The Company, as a financial holding company, is required to be well capitalized in the two capital categories based on risk-weighted assets, as shown in the table below. We believe, as of September 30, 2013, that the Company and Busey Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered well capitalized .

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of September 30, 2013:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 442,590	18,19%	$ 194,619	8.00%	$ 243,274	10.00%
Busey Bank	$ 387,647	16.04%	$ 193,348	8.00%	$ 241,685	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 410,994	16,89%	$ 97,310	4.00%	$ 145,965	6.00%
Busey Bank	$ 356,247	14.74%	$ 96,674	4.00%	$ 145,011	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 410,994	11.98%	$ 137,202	4.00%	N/A	N/A
Busey Bank	$ 356,247	10.56%	$ 134,955	4.00%	$ 168,694	5.00%

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) mandates the Board of Governors of the Federal Reserve System to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. The components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. As a result, the proceeds of trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets. As First Busey has assets of less than $15 billion, it will be able to maintain its trust preferred proceeds as Tier 1 capital but it will have to comply with new capital mandates in other respects, and it will not be able to raise Tier 1 capital in the future through the issuance of trust preferred securities.

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms and issued rules effecting certain changes required by the Dodd-Frank Act (the Basel III Rules). The Basel III Rules are applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than small bank holding companies (generally bank holding companies with consolidated assets of less than $500 million). The Basel III Rules not only increase most of the required minimum regulatory capital ratios, but they introduce a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rules also expand the definition of capital as in effect currently by establishing criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify, or their qualifications will change when the Basel III Rules are fully implemented. The Basel III Rules also permit banking organizations with less than $15.0 billion in assets to retain, through a one-time election, the existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Basel III Rules have maintained the general structure of the current prompt corrective action framework, while incorporating the increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. In order to be a well-capitalized depository institution under the new regime, a bank and holding company must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more; a Tier 1 Capital ratio of 8% or more; a Total Capital ratio of 10% or more; and a leverage ratio of 5% or more. Generally, financial institutions become subject to the new Basel III Rules on January 1, 2015, with phase-in periods for many of the changes. Management is in the process of assessing the effect the Basel III Rules may have on the Company s and Busey Bank s capital positions and will monitor developments in this area.

FORWARD LOOKING STATEMENTS

Statements made in this report, other than those concerning historical financial information, may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, plans, objectives, future performance and business of First Busey. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of First Busey s management and on information currently available to management, are generally identifiable by the use of words such as believe, expect, anticipate, plan, intend, estimate, may, will, would, could, should or other similar expressions. Ad statements in this document, including forward-looking statements, speak only as of the date they are made, and we undertake no obligation to update any statement in light of new information or future events. A number of factors, many of which are beyond our ability to control or predict, could cause actual results to differ materially from those in our forward-looking statements. These factors include, among others, the following: (i) the strength of the local and national economy; (ii) the economic impact of any future terrorist threats or attacks; (iii) changes in state and federal laws, regulations and governmental policies concerning First Busey s general business (including the impact of the Dodd-Frank Act and the extensive regulations to be promulgated thereunder, as well as the rules recently adopted by the federal bank regulatory agencies to implement Basel III); (iv) changes in interest rates and prepayment rates of First Busey s assets; (v) increased competition in the financial services sector and the inability to attract new customers; (vi) changes in technology and the ability to develop and maintain secure and reliable electronic systems; (vii) the loss of key executives or employees; (viii) changes in consumer spending; (ix) unexpected results of acquisitions; (x) unexpected outcomes of existing or new litigation involving First Busey; and (xi) changes in accounting policies and practices. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning First Busey and its business, including additional factors that could materially affect its financial results, is included in First Busey s filings with the Securities and Exchange Commission.

Critical Accounting Estimates

Critical accounting estimates are those that are critical to the portrayal and understanding of First Busey s financial condition and results of operations and require management to make assumptions that are difficult, subjective or complex. These estimates involve judgments, estimates and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending on the severity of such changes, the possibility of a materially different financial condition or materially different results of operations is a reasonable likelihood.

Our significant accounting policies are described in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The majority of these accounting policies do not require management to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

Fair Value of Investment 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. First Busey had $0.8 million securities classified as held to maturity at September 30, 2013. First Busey had no securities classified as trading at September 30, 2013. 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. As of September 30, 2013, First Busey had $907.4 million securities classified as available for sale. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security s terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.

Realized securities gains or losses are reported in securities gains, net in the consolidated statements of income. The cost of securities sold is based on the specific identification method. Declines in the fair value of available for sale securities below their amortized cost are evaluated to determine whether the loss is temporary or other-than-temporary. If the Company (a) has the intent to sell a debt security or (b) will more-likely-than-not be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire unrealized loss in earnings as an other-than-temporary loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The impairment is separated into the amount of the total impairment related to the credit loss and the amount of total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income.

The Company also evaluates whether the decline in fair value of an equity security is temporary or other-than-temporary. In determining whether an unrealized loss on an equity security is temporary or other-than-temporary, management considers various factors including the magnitude and duration of the impairment, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the equity security to forecasted recovery.

Allowance for Loan Losses. First Busey has established an allowance for loan losses which represents its estimate of the probable losses inherent in the loan portfolio as of the date of the financial statements and reduces the total loans outstanding by an estimate of uncollectible loans. Loans deemed uncollectible are charged against and reduce the allowance. A provision for loan losses is charged to current expense. This provision acts to replenish the allowance for loan losses and to maintain the allowance at a level that management deems adequate.

To determine the adequacy of the allowance for loan losses, a formal analysis is completed quarterly to assess the risk within the loan portfolio. This assessment is reviewed by senior management of Busey Bank and the Company. The analysis includes a review of historical performance, dollar amount and trends of past due loans, dollar amount and trends in non-performing loans, certain impaired loans, and loans identified as sensitive assets. Sensitive assets include non-accrual loans, past-due loans, loans on First Busey s watch loan reports and other loans identified as having probable potential for loss.

The allowance consists of specific and general components. The specific component considers loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying amount of that loan. The general component covers non-classified loans and classified loans not considered impaired, and is based on historical loss experience adjusted for qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss experience.

A loan is considered to be impaired when, based on current information and events, it is probable First Busey will not be able to collect all principal and interest amounts due according to the contractual terms of the loan agreement. When a loan becomes impaired, management generally calculates the impairment based on the present value of expected future cash flows discounted at the loan s effective interest rate. If the loan is collateral dependent, the fair value of the collateral is used to measure the amount of impairment. The amount of impairment and any subsequent changes are recorded through a charge to earnings as an adjustment to the allowance for loan losses. Because a significant majority of First Busey s loans are collateral dependent, First Busey has determined the required allowance on these loans based upon the estimated fair value, net of selling costs, of the respective collateral. The required allowance or actual losses on these impaired loans could differ significantly if the ultimate fair value of the collateral is significantly different from the fair value estimates used by First Busey in estimating such potential losses.

Deferred Taxes. We have maintained significant net deferred tax assets for deductible temporary differences, the largest of which relates to the net operating loss carryforward and the allowance for loan losses. For income tax return purposes, only actual charge-offs are deductible, not the provision for loan losses. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is more-likely-than-not that the deferred tax asset will not be realized. The determination of the recoverability of the deferred tax assets is highly subjective and dependent upon judgment concerning management s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions. We consider both positive and negative evidence regarding the ultimate recoverability of our deferred tax assets. Positive evidence includes available tax planning strategies and the probability that taxable income will continue to be generated in future periods, as it was in periods since March 31, 2010, while negative evidence includes a cumulative loss in 2009 and 2008 and certain business and economic trends. We evaluated the recoverability of our net deferred tax assets and established a valuation allowance for certain state net operating loss and credit carryforwards that are not expected to be fully realized. Management believes that it is more-likely-than-not that the other deferred tax assets included in the accompanying consolidated financial statements will be fully realized. We determined that no valuation allowance was required for any other deferred tax assets as of September 30, 2013, although there is no guarantee that those assets will be recognizable in future periods.

We must assess the likelihood that any deferred tax assets will be realized through the reduction of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more-likely-than-not. In making this assessment, we must make judgments and estimates regarding the ability to realize the asset through the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. The Company s evaluation gave consideration to the fact that all net operating loss carrybacks have been utilized. Therefore, utilization of net operating loss carryforwards are dependent on implementation of tax strategies and continued profitability.

ITEM 3. QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of change in asset values due to movements in underlying market rates and prices. Interest rate risk is the risk to earnings and capital arising from movements in interest rates. Interest rate risk is the most significant market risk affecting First Busey as other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of First Busey s business activities.

The Bank has an asset-liability committee which meets at least quarterly to review current market conditions and attempts to structure the Bank s balance sheet to ensure stable net interest income despite potential changes in interest rates with all other variables constant.

As interest rate changes do not impact all categories of assets and liabilities equally or simultaneously, the asset-liability committee primarily relies on balance sheet and income simulation analysis to determine the potential impact of changes in market interest rates on net interest income. In these standard simulation models, the balance sheet is projected over a one-year period and net interest income is calculated under current market rates, and then assuming permanent instantaneous shifts of +/-100, +/-200, +/-300 and +/-400 basis points. Management measures such changes assuming immediate and sustained shifts in the federal funds rate and other market rate indices and the corresponding shifts in other non-market rate indices based on their historical changes relative to changes in the federal funds rate and other market indices. The model assumes assets and liabilities remain constant at September 30, 2013 balances. The model uses repricing frequency on all variable-rate assets and liabilities. Prepayment speeds on loans have been adjusted to incorporate expected prepayment speeds in both a declining and rising rate environment. As of September 30, 2013, due to the current low interest rate environment, a downward adjustment in federal fund rates was not possible.

Utilizing this measurement concept, the interest-rate risk of First Busey due to an immediate and sustained change in interest rates, expressed as a change in net interest income as a percentage of the net interest income calculated in the constant base model, was as follows:

	Basis Point Changes							
	-400	-300	-200	-100	+100	+200	+300	+400
September 30, 2013	NA	NA	NA	NA	(4.41)%	(8.64)%	(13.18)%	(18.04)%
December 31, 2012	NA	NA	NA	NA	(2.64)%	(5.48)%	(9.15)%	(13.22)%

First Busey s Asset, Liability and Liquidity Management Policy defines a targeted range of:

Basis points	Change in Net interest income
+/-100	+/-10.0%
+/-200	+/-15.0%
+/-300	+/-22.5%
+/-400	+/-30.0%

As indicated in the table above, First Busey was within each of the targeted ranges on a consolidated basis. The calculation of potential effects of hypothetical interest rate changes was based on numerous assumptions and should not be relied upon as indicative of actual results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was carried out as of September 30, 2013, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2013, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Controls over Financial Reporting

During the quarter ended September 30, 2013, First Busey did not make any changes in its internal control over financial reporting or other factors that could materially affect, or were reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

As part of the ordinary course of business, First Busey and its subsidiaries are parties to litigation that is incidental to their regular business activities.

There is no material pending litigation in which First Busey or any of its subsidiaries is involved or of which any of their property is the subject. Furthermore, there is no pending legal proceeding that is adverse to First Busey in which any director, officer or affiliate of First Busey, or any associate of any such director or officer, is a party, or has a material interest.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A of Part I of the Company s 2012 Annual Report on Form 10-K.

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

Repurchases

There were no purchases made by or on behalf of First Busey of shares of its common stock during the quarter ended September 30, 2013.

On January 22, 2008, First Busey announced that its board of directors had authorized the repurchase of 1,000,000 shares of common stock. First Busey s repurchase plan has no expiration date and is active until all the shares are repurchased or action is taken by the board of directors to discontinue the plan. As of September 30, 2013, under the Company s stock repurchase plan, 895,655 shares remained authorized for repurchase.

ITEM 3. Defaults upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not Applicable

ITEM 5. Other Information

(a) None

(b) None

ITEM 6. Exhibits

31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Financial Officer.
101	Interactive Data File

Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at September 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2013 and September 30, 2012; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and September 30, 2012; (iv) Consolidated Statements of Stockholders Equity for the nine months ended September 30, 2013 and September 30, 2012; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and September 30, 2012; and (vi) Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements 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.

FIRST BUSEY CORPORATION

(Registrant)

By: /s/ VAN A. DUKEMAN

Van A. Dukeman
President and Chief Executive Officer
(Principal executive officer)

By: /s/ DAVID B. WHITE

David B. White
Chief Financial Officer
(Principal financial and accounting officer)

Date: November 7, 2013