

FIRST BUSEY CORP /NV/  
Form 10-Q  
November 06, 2014

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

## FORM 10-Q

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

**For the Quarterly Period Ended 9/30/2014**

**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) 365-4544**

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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  No

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  No

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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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 6, 2014
Common Stock, \$.001 par value	86,852,116

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

(Unaudited)

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
<b>Assets</b>		
Cash and due from banks (interest-bearing 2014 \$95,358; 2013 \$118,228)	\$ 179,724	\$ 231,603
Securities available for sale, at fair value	803,065	841,310
Securities held to maturity, at amortized cost	2,384	834
Loans held for sale	12,090	13,840
Loans (net of allowance for loan losses 2014 \$47,014; 2013 \$47,567)	2,320,811	2,233,893
Premises and equipment	64,369	65,827
Goodwill	20,686	20,686
Other intangible assets	7,390	9,571
Cash surrender value of bank owned life insurance	41,110	40,674
Other real estate owned (OREO)	216	2,133
Deferred tax asset, net	22,799	35,642
Other assets	46,273	43,562
Total assets	\$ 3,520,917	\$ 3,539,575
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 579,550	\$ 547,531
Interest-bearing	2,245,844	2,321,607
Total deposits	\$ 2,825,394	\$ 2,869,138
Securities sold under agreements to repurchase	157,282	172,348
Long-term debt	30,000	
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	23,213	27,725
Total liabilities	\$ 3,090,889	\$ 3,124,211
<b>Stockholders Equity</b>		
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	593,520	593,144
Accumulated deficit	(213,386)	(225,722)
Accumulated other comprehensive income	5,667	4,456
Total stockholders equity before treasury stock	\$ 458,553	\$ 444,630
Common stock shares held in treasury at cost 2014 1,442,257; 2013 1,482,777	(28,525)	(29,266)
Total stockholders equity	\$ 430,028	\$ 415,364
Total liabilities and stockholders equity	\$ 3,520,917	\$ 3,539,575
Common shares outstanding at period end	86,844,875	86,804,355

See accompanying notes to unaudited consolidated financial statements.



## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014		2013	
	(dollars in thousands, except per share amounts)			
<b>Interest income:</b>				
Interest and fees on loans	\$	68,523	\$	69,257
Interest and dividends on investment securities:				
Taxable interest income		9,423		9,616
Non-taxable interest income		2,472		2,938
Total interest income	\$	80,418	\$	81,811
<b>Interest expense:</b>				
Deposits	\$	3,928	\$	5,577
Securities sold under agreements to repurchase		114		128
Short-term borrowings		1		15
Long-term debt		1		125
Junior subordinated debt owed to unconsolidated trusts		885		905
Total interest expense	\$	4,929	\$	6,750
Net interest income	\$	75,489	\$	75,061
Provision for loan losses		2,000		6,000
Net interest income after provision for loan losses	\$	73,489	\$	69,061
<b>Other income:</b>				
Trust fees	\$	14,879	\$	13,956
Commissions and brokers' fees, net		2,023		1,819
Remittance processing		7,120		6,288
Service charges on deposit accounts		8,981		8,876
Other service charges and fees		4,681		4,452
Gain on sales of loans		3,554		8,944
Security gains, net		40		82
Other		2,924		3,637
Total other income	\$	44,202	\$	48,054
<b>Other expense:</b>				
Salaries and wages	\$	37,418	\$	39,342
Employee benefits		7,542		8,754
Net occupancy expense of premises		6,384		6,340
Furniture and equipment expense		3,607		3,687
Data processing		8,099		7,813
Amortization of intangible assets		2,181		2,349
Regulatory expense		1,559		1,808
OREO expense		87		394
Other		12,862		14,239
Total other expense	\$	79,739	\$	84,726
Income before income taxes	\$	37,952	\$	32,389
Income taxes		12,771		10,583
<b>Net income</b>	\$	25,181	\$	21,806
Preferred stock dividends		545		2,725
<b>Net income available to common stockholders</b>	\$	24,636	\$	19,081
<b>Basic earnings per common share</b>	\$	0.28	\$	0.22
<b>Diluted earnings per common share</b>	\$	0.28	\$	0.22
<b>Dividends declared per share of common stock</b>	\$	0.14	\$	0.08

See accompanying notes to unaudited consolidated financial statements.

## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended September 30, 2014 and 2013

(Unaudited)

	2014		2013	
	(dollars in thousands, except per share amounts)			
<b>Interest income:</b>				
Interest and fees on loans	\$	23,553	\$	23,096
Interest and dividends on investment securities:				
Taxable interest income		3,148		3,162
Non-taxable interest income		810		978
Total interest income	\$	27,511	\$	27,236
<b>Interest expense:</b>				
Deposits	\$	1,260	\$	1,656
Securities sold under agreements to repurchase		40		44
Short-term borrowings		1		
Long-term debt		1		
Junior subordinated debt owed to unconsolidated trusts		298		303
Total interest expense	\$	1,600	\$	2,003
Net interest income	\$	25,911	\$	25,233
Provision for loan losses				2,000
Net interest income after provision for loan losses	\$	25,911	\$	23,233
<b>Other income:</b>				
Trust fees	\$	4,182	\$	4,035
Commissions and brokers' fees, net		676		710
Remittance processing		2,394		2,105
Service charges on deposit accounts		3,175		3,126
Other service charges and fees		1,575		1,486
Gain on sales of loans		1,339		2,684
Security gains, net				82
Other		863		1,402
Total other income	\$	14,204	\$	15,630
<b>Other expense:</b>				
Salaries and wages	\$	12,591	\$	13,001
Employee benefits		2,263		2,580
Net occupancy expense of premises		2,086		2,055
Furniture and equipment expense		1,250		1,211
Data processing		2,600		2,606
Amortization of intangible assets		701		783
Regulatory expense		503		545
OREO expense		16		(207)
Other		4,288		4,784
Total other expense	\$	26,298	\$	27,358
Income before income taxes	\$	13,817	\$	11,505
Income taxes		4,708		3,572
<b>Net income</b>	\$	9,109	\$	7,933
Preferred stock dividends		182		909
<b>Net income available to common stockholders</b>	\$	8,927	\$	7,024
<b>Basic earnings per common share</b>	\$	0.10	\$	0.08
<b>Diluted earnings per common share</b>	\$	0.10	\$	0.08
<b>Dividends declared per share of common stock</b>	\$	0.05	\$	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, 2014 and 2013

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Net income	\$ 9,109	\$ 7,933	\$ 25,181	\$ 21,806
Other comprehensive income (loss), before tax:				
Securities available for sale:				
Unrealized net (losses) gains on securities:				
Unrealized net holding (losses) gains arising during period	\$ (2,980)	\$ 1,092	\$ 2,099	\$ (12,125)
Reclassification adjustment for (gains) included in net income		(82)	(40)	(82)
Other comprehensive (loss) income, before tax	\$ (2,980)	\$ 1,010	\$ 2,059	\$ (12,207)
Income tax (benefit) expense related to items of other comprehensive income	(1,227)	416	848	(5,026)
Other comprehensive (loss) income, net of tax	\$ (1,753)	\$ 594	\$ 1,211	\$ (7,181)
Comprehensive income	\$ 7,356	\$ 8,527	\$ 26,392	\$ 14,625

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, 2014 and 2013**

**(Unaudited)**

*(dollars in thousands, except per share amounts)*

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2012	\$ 72,664	\$ 88	\$ 594,411	\$ (240,321)	\$ 13,542	\$ (31,587)	\$ 408,797
Net income				21,806			21,806
Other comprehensive loss					(7,181)		(7,181)
Issuance of treasury stock for employee stock purchase plan			(234)			316	82
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit			(1,414)			1,301	(113)
Cash dividends common stock at \$0.08 per share				(6,937)			(6,937)
Stock dividend equivalents restricted stock units at \$0.08 per share			45	(45)			
Stock-based employee compensation			650				650
Preferred stock dividends				(2,725)			(2,725)
Balance, September 30, 2013	\$ 72,664	\$ 88	\$ 593,458	\$ (228,222)	\$ 6,361	\$ (29,970)	\$ 414,379
Balance, December 31, 2013	\$ 72,664	\$ 88	\$ 593,144	\$ (225,722)	\$ 4,456	\$ (29,266)	\$ 415,364
Net income				25,181			25,181
Other comprehensive income					1,211		1,211
Issuance of treasury stock for employee stock purchase plan			(376)			533	157
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit			(229)			208	(21)
Cash dividends common stock at \$0.14 per share				(12,154)			(12,154)
Stock dividend equivalents restricted stock units at \$0.14 per share			146	(146)			
Stock-based employee compensation			835				835
Preferred stock dividends				(545)			(545)
Balance, September 30, 2014	\$ 72,664	\$ 88	\$ 593,520	\$ (213,386)	\$ 5,667	\$ (28,525)	\$ 430,028

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, 2014 and 2013**

(Unaudited)

	2014	2013
	(dollars in thousands)	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 25,181	\$ 21,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	835	650
Depreciation and amortization	6,419	6,494
Provision for loan losses	2,000	6,000
Provision for deferred income taxes	11,999	6,725
Amortization of security premiums and discounts, net	5,525	6,821
Net security gains	(40)	(82)
Gain on sales of loans, net	(3,554)	(8,944)
Net loss (gain) on disposition of premises and equipment	4	(796)
Net gains on sales of OREO properties	(142)	(1)
Increase in cash surrender value of bank owned life insurance	(436)	(915)
Change in assets and liabilities:		
(Increase) decrease in other assets	(2,285)	9,177
Decrease in other liabilities	(4,209)	(1,192)
Decrease in interest payable	(146)	(386)
(Increase) decrease in income taxes receivable	(426)	228
<b>Net cash provided by operating activities before activities for loans originated for sale</b>	<b>\$ 40,725</b>	<b>\$ 45,585</b>
Loans originated for sale	(164,570)	(390,125)
Proceeds from sales of loans	169,874	421,572
<b>Net cash provided by operating activities</b>	<b>\$ 46,029</b>	<b>\$ 77,032</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales of securities classified available for sale	65,906	10,229
Proceeds from maturities of securities classified available for sale	137,943	143,258
Proceeds from maturities of securities classified held to maturity	6	
Purchase of securities classified available for sale	(169,560)	(78,358)
Purchase of securities classified held to maturity	(1,026)	(838)
Net increase in loans	(89,514)	(207,063)
Proceeds from disposition of premises and equipment	8	2,849
Proceeds from sale of OREO properties	2,655	2,312
Purchases of premises and equipment	(2,792)	(2,279)
<b>Net cash used in investing activities</b>	<b>\$ (56,374)</b>	<b>\$ (129,890)</b>

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## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Nine Months Ended September 30, 2014 and 2013

(Unaudited)

	2014	2013
	(dollars in thousands)	
<b>Cash Flows from Financing Activities</b>		
Net decrease in certificates of deposit	\$ (65,691)	\$ (82,944)
Net increase (decrease) in demand, money market and savings deposits	21,947	(17,496)
Cash dividends paid	(12,699)	(9,662)
Value of shares surrendered upon vesting of restricted stock units to cover tax obligations	(25)	(113)
Principal payments on long-term debt		(7,000)
Proceeds from long-term debt	30,000	
Net (decrease) increase in securities sold under agreements to repurchase	(15,066)	17,486
<b>Net cash used in financing activities</b>	<b>\$ (41,534)</b>	<b>\$ (99,729)</b>
<b>Net decrease in cash and due from banks</b>	<b>\$ (51,879)</b>	<b>\$ (152,587)</b>
<b>Cash and due from banks, beginning</b>	<b>\$ 231,603</b>	<b>\$ 351,255</b>
<b>Cash and due from banks, ending</b>	<b>\$ 179,724</b>	<b>\$ 198,668</b>

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

<b>Cash payments for:</b>			
Interest	\$	5,075	\$ 7,136
Income taxes	\$	2,686	\$ 3,406
<b>Non-cash investing and financing activities:</b>			
Other real estate acquired in settlement of loans	\$	596	\$ 1,017

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 ( First Busey or 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 ( 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, 2013.

The accompanying Consolidated Balance Sheets as of December 31, 2013, which have been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with 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 as of the dates and 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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. Other than the return of capital and associated surplus to the Company from Busey Bank (the Bank ), which was executed on October 22, 2014, as discussed in the capital resources section of management s discussion and analysis of financial condition and results of operations, there were no significant subsequent events for the quarter ended September 30, 2014 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

**Note 2: Recent Accounting Pronouncements**

*ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* ASU 2014-04 clarifies when an in-substance repossession or foreclosure occurs and requires interim and annual disclosures. The new authoritative guidance will be effective for fiscal years, and interim periods within those

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years, beginning after December 15, 2014 and is not expected to have a significant impact on the Company's financial statements.

*ASU 2014-09, Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and will also require additional disclosures. The new authoritative guidance will be for reporting periods after December 15, 2016, and the Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

ASU 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. ASU 2014-14 requires that certain government-guaranteed mortgage loans be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure on loans that meet these criteria, a separate receivable should be recorded based on the amount of the loan balance expected to be recovered from the guarantor. The new authoritative guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and is not expected to have a significant impact on the Company's financial statements.

### 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 as available for sale and held to maturity are summarized as follows:

September 30, 2014:	Amortized Cost	Gross Unrealized Gains (dollars in thousands)	Gross Unrealized Losses	Fair Value
<b>Available for sale</b>				
U.S. Treasury securities	\$ 50,341	\$ 242	\$ (6)	\$ 50,577
Obligations of U.S. government corporations and agencies	187,394	1,397	(155)	188,636
Obligations of states and political subdivisions	234,495	3,419	(752)	237,162
Residential mortgage-backed securities	241,933	3,882	(243)	245,572
Corporate debt securities	73,840	241	(123)	73,958
Total debt securities	788,003	9,181	(1,279)	795,905
Mutual funds and other equity securities	5,428	1,732		7,160
Total	\$ 793,431	\$ 10,913	\$ (1,279)	\$ 803,065
<b>Held to maturity</b>				
Obligations of states and political subdivisions	\$ 1,366	\$ 19	\$ (1)	\$ 1,384
Commercial mortgage-backed securities	1,018	19		1,037
Total	\$ 2,384	\$ 38	\$ (1)	\$ 2,421

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December 31, 2013:	Amortized Cost	Gross Unrealized Gains (dollars in thousands)	Gross Unrealized Losses	Fair Value
<b>Available for sale</b>				
U.S. Treasury securities	\$ 102,463	\$ 244	\$ (67)	\$ 102,640
Obligations of U.S. government corporations and agencies	254,998	2,741	(328)	257,411
Obligations of states and political subdivisions	272,077	2,887	(2,812)	272,152
Residential mortgage-backed securities	174,699	3,571	(535)	177,735
Corporate debt securities	25,384	155	(33)	25,506
Total debt securities	829,621	9,598	(3,775)	835,444
Mutual funds and other equity securities	4,114	1,752		5,866
Total	\$ 833,735	\$ 11,350	\$ (3,775)	\$ 841,310
<b>Held to maturity</b>				
Obligations of states and political subdivisions	\$ 834	\$ 1	\$ (4)	\$ 831
Total	\$ 834	\$ 1	\$ (4)	\$ 831

The amortized cost and fair value of debt securities available for sale and held to maturity as of September 30, 2014, 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 (dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 127,442	\$ 128,040	\$	\$
Due after one year through five years	353,926	356,234	515	518
Due after five years through ten years	148,191	151,396	1,869	1,903
Due after ten years	158,444	160,235		
Total	\$ 788,003	\$ 795,905	\$ 2,384	\$ 2,421

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
Gross security gains	\$	\$ 82	\$ 57	\$ 82
Gross security (losses)			(17)	
Net security gains	\$	\$ 82	\$ 40	\$ 82

The tax provision for the net realized gains was insignificant for the three and nine months ended September 30, 2014 and 2013.

Investment securities with carrying amounts of \$512.5 million and \$428.7 million on September 30, 2014 and December 31, 2013, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.



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Information pertaining to securities with gross unrealized losses at September 30, 2014 and December 31, 2013 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

September 30, 2014:	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available for sale</b>						
U.S. Treasury securities	\$	\$	\$ 362	\$ 6	\$ 362	\$ 6
Obligations of U.S. government corporations and agencies		260	25,152	154	25,412	155
Obligations of states and political subdivisions		24,153	43,653	686	67,806	752
Residential mortgage-backed securities		53,276	10,858	128	64,134	243
Corporate debt securities		23,484	213	5	23,697	123
Total temporarily impaired securities	\$	101,173	\$	80,238	\$	181,411
		\$ 300		\$ 979		\$ 1,279

<b>Held to maturity</b>						
Obligations of states and political subdivisions	\$	236	\$	1	\$	236
Total temporarily impaired securities	\$	236	\$	1	\$	236

December 31, 2013:	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available for sale</b>						
U.S. Treasury securities	\$	25,830	\$	67	\$	25,830
Obligations of U.S. government corporations and agencies		25,946		328		25,946
Obligations of states and political subdivisions		92,703		2,518		101,195
Residential mortgage-backed securities		53,543		535		53,543
Corporate debt securities		1,614		33		1,614
Total temporarily impaired securities	\$	199,636	\$	3,481	\$	208,128
		\$ 3,481		\$ 294		\$ 3,775

<b>Held to maturity</b>						
Obligations of states and political subdivisions	\$	597	\$	4	\$	597
Total temporarily impaired securities	\$	597	\$	4	\$	597

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Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to 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 it 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, 2014 was 158, and represented a loss of 0.7% 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, 2014.

The Company had available for sale obligations of state and political subdivisions with a fair value of \$237.2 million and \$272.2 million as of September 30, 2014 and December 31, 2013, respectively. In addition, the Company had held to maturity obligations of state and political subdivisions totaling \$1.4 million and \$0.8 million at September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014, the Company's obligations of state and political subdivisions portfolio was comprised of \$196.7 million of general obligation bonds and \$41.8 million of revenue bonds issued by 238 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 23 states (including the District of Columbia), including seven states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in 17 states, including two states where the aggregate fair value exceeded \$5.0 million.

As of December 31, 2013, the Company's obligations of state and political subdivisions portfolio was comprised of \$223.5 million of general obligation bonds and \$49.5 million of revenue bonds issued by 267 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 25 states (including the District of Columbia), including seven states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in 21 states, including two states where the aggregate fair value exceeded \$5.0 million.

The amortized cost and fair values of the Company's portfolio of general obligation bonds are summarized in the following tables by the issuers state:

### September 30, 2014:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
		(dollars in thousands)		
Illinois	75	\$ 68,434	\$ 69,974	\$ 933
Wisconsin	40	38,271	38,562	964
Michigan	33	30,884	31,283	948
Pennsylvania	10	12,939	13,030	1,303
Ohio	10	10,936	10,890	1,089

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Texas	7	7,401	7,359	1,051
Iowa	3	6,118	6,154	2,051
Other	24	18,905	19,476	812
Total general obligations bonds	202	\$ 193,888	\$ 196,728	\$ 974

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December 31, 2013:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
(dollars in thousands)				
Illinois	82	\$ 82,884	\$ 83,804	\$ 1,022
Wisconsin	41	43,117	43,122	1,052
Michigan	37	35,350	35,365	956
Pennsylvania	11	14,132	14,133	1,285
Ohio	12	11,709	11,426	952
Texas	7	7,510	7,270	1,039
Iowa	3	6,126	6,060	2,020
Other	26	21,865	22,290	857
Total general obligations bonds	219	\$ 222,693	\$ 223,470	\$ 1,020

The general obligation bonds are diversified across many issuers, with \$3.5 million and \$5.0 million being the largest exposure to a single issuer at September 30, 2014 and December 31, 2013, respectively. Accordingly, as of September 30, 2014 and December 31, 2013, the Company did not hold general obligation bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company's stockholders' equity. Of the general obligation bonds in the Company's portfolio, 96.9% had been rated by at least one nationally recognized statistical rating organization and 3.1% were unrated, based on the fair value as of September 30, 2014. Of the general obligation bonds in the Company's portfolio, 96.4% had been rated by at least one nationally recognized statistical rating organization and 3.6% were unrated, based on the fair value as of December 31, 2013.

The amortized cost and fair values of the Company's portfolio of revenue bonds are summarized in the following tables by the issuers' state:

September 30, 2014:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
(dollars in thousands)				
Illinois	4	\$ 6,999	\$ 6,920	\$ 1,730
Indiana	8	12,534	12,486	1,561
Other	24	22,440	22,412	934
Total revenue bonds	36	\$ 41,973	\$ 41,818	\$ 1,162

December 31, 2013:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
(dollars in thousands)				
Illinois	4	\$ 7,356	\$ 7,121	\$ 1,780

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Indiana	14		14,740		14,481		1,034
Other	30		28,122		27,911		930
Total revenue bonds	48	\$	50,218	\$	49,513	\$	1,032

The revenue bonds are diversified across many issuers and revenue sources with \$3.0 million being the largest exposure to a single issuer at each of September 30, 2014 and December 31, 2013. Accordingly, as of September 30, 2014 and December 31, 2013, the Company did not hold revenue bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company's stockholders' equity. All of the revenue bonds in the Company's portfolio had been rated by at least one nationally recognized statistical rating organization as of September 30, 2014 and December 31, 2013. Some of the primary types of revenue bonds owned in the Company's portfolio include: primary education or government building lease rentals secured by ad valorem taxes, utility systems secured by utility system net revenues, housing authorities secured by mortgage loans or principal receipts on mortgage loans, secondary education secured by student fees/tuitions, and pooled issuances (i.e. bond bank) consisting of multiple underlying municipal obligors.

Substantially all of the Company's obligations of state and political subdivision securities are owned by Busey Bank, whose investment policy requires that state and political subdivision securities purchased be investment grade. Busey Bank's investment policy also limits the amount of rated state and political subdivision securities to an aggregate 100% of the Bank's Total Risk Based Capital at the time of purchase and an aggregate 15% of Total Risk Based Capital for unrated state and political subdivision securities issued by municipalities having taxing authority or located in counties/micropolitan statistical areas/metropolitan statistical areas in which an office of the Bank is located. The investment policy states fixed income investments that are not Office of the Comptroller of the Currency Type 1 securities (U.S. Treasuries, agencies, municipal government general obligation and, for well-capitalized institutions, most municipal revenue bonds) should be analyzed prior to acquisition to determine that (1) the security has low risk of default by the obligor, and (2) the full and timely repayment of principal and interest is expected over the expected life of the investment. All securities in the Bank's obligations of state and political subdivision securities portfolio are subject to ongoing review. Factors that may be considered as part of ongoing monitoring of state and political subdivision securities include credit rating changes by nationally recognized statistical rating organizations, market valuations, third-party municipal credit analysis, which may include indicative information regarding the issuer's capacity to pay, market and economic data and such other factors as are available and relevant to the security or the issuer such as its budgetary position and sources, strength and stability of taxes and/or other revenue.

As of September 30, 2014, the Company's regular monitoring of its obligations of state and political subdivisions portfolio had not uncovered any facts or circumstances resulting in significantly different credit ratings than those assigned by a nationally recognized statistical rating organization.

#### Note 4: Loans

Geographic distributions of loans were as follows:

	September 30, 2014			Total
	Illinois	Florida	Indiana	
	(dollars in thousands)			
Commercial	\$ 520,002	\$ 18,794	\$ 26,027	\$ 564,823
Commercial real estate	850,819	168,201	118,464	1,137,484
Real estate construction	47,155	17,045	15,619	79,819
Retail real estate	468,818	104,971	13,442	587,231
Retail other	9,929	551	78	10,558
Total	\$ 1,896,723	\$ 309,562	\$ 173,630	\$ 2,379,915
Less held for sale(1)				12,090
				\$ 2,367,825
Less allowance for loan losses				47,014
Net loans				\$ 2,320,811

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

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	December 31, 2013			Total
	Illinois	Florida	Indiana	
	(dollars in thousands)			
Commercial	\$ 530,174	\$ 20,536	\$ 29,902	\$ 580,612
Commercial real estate	800,568	160,255	131,450	1,092,273
Real estate construction	55,190	17,426	6,239	78,855
Retail real estate	419,801	103,104	11,588	534,493
Retail other	8,422	552	93	9,067
Total	\$ 1,814,155	\$ 301,873	\$ 179,272	\$ 2,295,300
Less held for sale(1)				13,840
				\$ 2,281,460
Less allowance for loan losses				47,567
Net loans				\$ 2,233,893

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

Net deferred loan origination costs included in the tables above were \$0.5 million as of September 30, 2014 and insignificant as of December 31, 2013.

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 by the Company's board of directors at least annually.

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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.

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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, 2013. 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 Specially 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 a 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 loans that are \$1.0 million or less are processed through an expedited underwriting process. If the credit receives a pass grade it is aggregated into a homogenous pool of either: \$0.35 million or less or \$0.35 million to \$1.0 million. These pools are monitored on a quarterly basis for the first year, semiannually in the second year and annually thereafter. Homogenous pool credits which are subsequently downgraded to a grading of 7 or worse, are subject to the same portfolio review as loans over \$1.0 million. All commercial loans greater than \$1.0 million dollars receive a portfolio review at least annually. Commercial loans greater than \$1.0 million that have a grading of 7 receive a portfolio review twice per year. Commercial loans greater than \$1.0 million that have a grading of 8 or worse receive a portfolio review on a quarterly basis. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review.

Loans in the highest grades, represented by grades 1, 3, 6 and 7, totaled \$2.2 billion at September 30, 2014 compared to \$2.1 billion at December 31, 2013. Loans in the lowest grades, represented by grades 8, 9 and 10, totaled \$131.8 million at September 30, 2014, a decline of

\$30.1 million from \$161.9 million at December 31, 2013.

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

	Weighted Avg. Risk Grade	Grades 1,3,6	September 30, 2014			
			Grade 7	Grade 8	Grade 9	Grade 10
(dollars in thousands)						
<b>Illinois/Indiana</b>						
Commercial	4.66	\$ 494,643	\$ 34,085	\$ 9,455	\$ 6,471	\$ 1,375
Commercial real estate	5.63	844,763	74,000	27,213	21,724	1,583
Real estate construction	6.07	43,530	4,018	13,073	1,236	917
Retail real estate	3.49	446,768	10,620	4,531	3,557	1,345
Retail other	3.45	9,935	45	18	9	
Total Illinois/Indiana		\$ 1,839,639	\$ 122,768	\$ 54,290	\$ 32,997	\$ 5,220
<b>Florida</b>						
Commercial	6.07	\$ 11,126	\$ 3,966	\$ 3,100	\$ 602	\$
Commercial real estate	6.02	120,248	26,811	4,960	13,594	2,588
Real estate construction	6.16	15,473		624	857	91
Retail real estate	4.14	80,151	11,674	9,655	2,476	782
Retail other	3.00	551				
Total Florida		\$ 227,549	\$ 42,451	\$ 18,339	\$ 17,529	\$ 3,461
Total		\$ 2,067,188	\$ 165,219	\$ 72,629	\$ 50,526	\$ 8,681
<b>December 31, 2013</b>						
	Weighted Avg. Risk Grade	Grades 1,3,6	Grade	Grade	Grade	Grade
			7	8	9	10
(dollars in thousands)						
<b>Illinois/Indiana</b>						
Commercial	4.66	\$ 487,587	\$ 46,992	\$ 15,986	\$ 8,536	\$ 975
Commercial real estate	5.55	799,117	79,371	19,327	29,606	4,597
Real estate construction	7.11	21,585	16,376	11,920	7,686	3,862
Retail real estate	3.53	393,299	9,285	5,392	4,408	3,936
Retail other	2.64	8,451	60		4	
Total Illinois/Indiana		\$ 1,710,039	\$ 152,084	\$ 52,625	\$ 50,240	\$ 13,370
<b>Florida</b>						
Commercial	5.89	\$ 16,460	\$ 174	\$ 3,218	\$ 684	\$
Commercial real estate	6.02	116,741	16,470	11,250	12,721	3,073
Real estate construction	6.64	7,886	7,961	743	836	
Retail real estate	3.85	77,116	12,052	9,417	3,050	721
Retail other	1.72	552				
Total Florida		\$ 218,755	\$ 36,657	\$ 24,628	\$ 17,291	\$ 3,794
Total		\$ 1,928,794	\$ 188,741	\$ 77,253	\$ 67,531	\$ 17,164

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.



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

	September 30, 2014				Non-accrual Loans
	30-59 Days	Loans past due, still accruing		90+Days	
		60-89 Days			
	(dollars in thousands)				
<b>Illinois/Indiana</b>					
Commercial	\$ 30	\$ 16	\$ 5	\$	1,375
Commercial real estate	2,418	3,275			1,583
Real estate construction					917
Retail real estate	531	64	60		1,345
Retail other	6	10			
Total Illinois/Indiana	\$ 2,985	\$ 3,365	\$ 65	\$	5,220
<b>Florida</b>					
Commercial	\$	\$	\$	\$	
Commercial real estate					2,588
Real estate construction					91
Retail real estate					782
Retail other					
Total Florida	\$	\$	\$	\$	3,461
Total	\$ 2,985	\$ 3,365	\$ 65	\$	8,681

	December 31, 2013				Non-accrual Loans
	30-59 Days	Loans past due, still accruing		90+Days	
		60-89 Days			
	(dollars in thousands)				
<b>Illinois/Indiana</b>					
Commercial	\$ 906	\$ 279	\$ 92	\$	975
Commercial real estate	567	3,736			4,597
Real estate construction					3,862
Retail real estate	483	123	103		3,936
Retail other	20				
Total Illinois/Indiana	\$ 1,976	\$ 4,138	\$ 195	\$	13,370
<b>Florida</b>					
Commercial	\$	\$	\$	\$	
Commercial real estate					3,073
Real estate construction					
Retail real estate					721
Retail other					
Total Florida	\$	\$	\$	\$	3,794
Total	\$ 1,976	\$ 4,138	\$ 195	\$	17,164

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 10.

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, 2014 if impaired loans had been current in accordance with their original terms was \$0.1 million and \$0.7 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, 2014.

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, 2014 and December 31, 2013 is as follows:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Restructured loans:		
In compliance with modified terms	\$ 11,050	\$ 11,511
30 - 89 days past due		380
Included in non-performing loans	2,253	5,919
Total	\$ 13,303	\$ 17,810

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.

There were no performing loans classified as TDRs during the three months ended September 30, 2014. Performing loans classified as TDRs during the nine months ended September 30, 2014 were insignificant.

Performing loans classified as TDRs during the three and nine months ended September 30, 2013 included one commercial real estate modification in Illinois/Indiana for short-term principal payment relief, with a recorded investment of \$0.2 million. Performing loans classified as TDRs during the nine months ended September 30, 2013 also included one commercial real estate modification in Florida for short-term interest rate relief, with a recorded investment of \$0.1 million.

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The gross interest income that would have been recorded in the three and nine months ended September 30, 2014 and 2013 if performing TDRs had been in accordance with their original terms instead of modified terms was insignificant.

There were no 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) during the three and nine months ended September 30, 2014.

TDRs that were classified as non-performing and had payment defaults during the three months ended September 30, 2013 consisted of one Florida retail real estate modification totaling \$0.1 million. TDRs that were classified as non-performing and had payment defaults during the nine months ended September 30, 2013 consisted of one Illinois/Indiana commercial real estate modification totaling \$1.7 million, one Illinois/Indiana real estate construction modification totaling \$0.3 million, four Illinois/Indiana retail real estate modifications totaling \$1.1 million and two Florida retail real estate modifications totaling \$0.2 million.

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.

	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	September 30, 2014				
			Recorded Investment with Allowance (dollars in thousands)	Total Recorded Investment	Related Allowance	Average Recorded Investment	
<b>Illinois/Indiana</b>							
Commercial	\$ 3,294	\$ 1,703	\$ 707	\$ 2,410	\$ 590	\$ 2,618	
Commercial real estate	5,477	1,705	2,316	4,021	1,139	6,495	
Real estate construction	918	808	110	918	48	3,190	
Retail real estate	2,842	2,457	25	2,482	25	3,592	
Retail other							
Total Illinois/Indiana	\$ 12,531	\$ 6,673	\$ 3,158	\$ 9,831	\$ 1,802	\$ 15,895	
<b>Florida</b>							
Commercial	\$	\$	\$	\$	\$	\$ 2	
Commercial real estate	4,737	3,365	1,286	4,651	382	4,966	
Real estate construction	634	634		634		461	
Retail real estate	10,215	8,885	537	9,422	337	9,504	
Retail other	8		8	8	8	3	
Total Florida	\$ 15,594	\$ 12,884	\$ 1,831	\$ 14,715	\$ 727	\$ 14,936	
Total	\$ 28,125	\$ 19,557	\$ 4,989	\$ 24,546	\$ 2,529	\$ 30,831	

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	December 31, 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)						
<b>Illinois/Indiana</b>							
Commercial	\$ 2,825	\$ 1,684	\$ 602	\$ 2,286	\$ 485	\$ 4,169	
Commercial real estate	8,866	3,671	3,740	7,411	1,977	10,335	
Real estate construction	4,932	2,292	1,570	3,862	468	5,889	
Retail real estate	5,583	3,267	2,010	5,277	604	5,296	
Retail other							
Total Illinois/Indiana	\$ 22,206	\$ 10,914	\$ 7,922	\$ 18,836	\$ 3,534	\$ 25,689	
<b>Florida</b>							
Commercial	\$	\$	\$	\$	\$	\$	
Commercial real estate	7,108	3,946	1,319	5,265	416	6,662	
Real estate construction	417	417		417		1,294	
Retail real estate	10,346	9,005	537	9,542	337	11,079	
Retail other							
Total Florida	\$ 17,871	\$ 13,368	\$ 1,856	\$ 15,224	\$ 753	\$ 19,035	
Total	\$ 40,077	\$ 24,282	\$ 9,778	\$ 34,060	\$ 4,287	\$ 44,724	

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, 2014 and December 31, 2013.

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 each of September 30, 2014 and December 31, 2013, 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, 2014, the Company believed this minimum reserve remained adequate.

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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, 2014 and December 31, 2013, based upon a review of the differences between the rolling 12- and 20-quarter historical loss averages by region. As of September 30, 2014, the Company believed this minimum additional amount remained adequate.

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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 2014, the Company adjusted Illinois/Indiana qualitative factors relating to Loan Underwriting, Policy and Procedures, Macro and Local Economic Factor, Nature and Volume of Loan Portfolio, and Net Charge-Off Trend. Additionally, the Company adjusted Florida qualitative factors relating to Loan Underwriting, Policy and Procedures, Macro and Local Economic Factor, and Net Charge-Off Trend. The adjustment of these factors increased our allowance requirements by \$5.3 million at September 30, 2014 compared to the method used for June 30, 2014. Further, during the first quarter of 2014, the Company adjusted Illinois/Indiana and Florida qualitative factors relating to Net Charge-Off Trend compared to the method used for December 31, 2013. Adjustments to increase these qualitative factors were made in the third and first quarters of 2014 to recognize perceived changing degrees of risk, offset decreasing quantitative factors and reflect management's evaluation of risk. The Company 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.

	As of and for the Three Months Ended September 30, 2014						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other		Total
	(dollars in thousands)						
<b>Illinois/Indiana</b>							
Beginning balance	\$ 7,695	\$ 15,426	\$ 2,776	\$ 10,802	\$ 238		\$ 36,937
Provision for loan loss	1,031	2,208	(623)	(1,986)	130		760
Charged-off	(121)			(388)	(114)		(623)
Recoveries	29	39		120	44		232
Ending Balance	\$ 8,634	\$ 17,673	\$ 2,153	\$ 8,548	\$ 298		\$ 37,306
<b>Florida</b>							
Beginning balance	\$ 1,782	\$ 4,976	\$ 175	\$ 3,554	\$ 4		\$ 10,491
Provision for loan loss	(539)	116	5	(345)	3		(760)
Charged-off	(6)			(55)	(1)		(62)
Recoveries	18			15	6		39
Ending Balance	\$ 1,255	\$ 5,092	\$ 180	\$ 3,169	\$ 12		\$ 9,708



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As of and for the Nine Months Ended September 30, 2014

	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
(dollars in thousands)						
<b>Illinois/Indiana</b>						
Beginning balance	\$ 8,452	\$ 16,379	\$ 2,540	\$ 6,862	\$ 216	\$ 34,449
Provision for loan loss	879	2,388	(241)	3,540	242	6,808
Charged-off	(825)	(1,173)	(657)	(2,079)	(306)	(5,040)
Recoveries	128	79	511	225	146	1,089
Ending Balance	\$ 8,634	\$ 17,673	\$ 2,153	\$ 8,548	\$ 298	\$ 37,306
<b>Florida</b>						
Beginning balance	\$ 1,926	\$ 5,733	\$ 1,168	\$ 4,287	\$ 4	\$ 13,118
Provision for loan loss	(807)	(912)	(1,983)	(1,096)	(10)	(4,808)
Charged-off	(26)			(192)	(1)	(219)
Recoveries	162	271	995	170	19	1,617
Ending Balance	\$ 1,255	\$ 5,092	\$ 180	\$ 3,169	\$ 12	\$ 9,708

As of and for the Three Months Ended September 30, 2013

	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
(dollars in thousands)						
<b>Illinois/Indiana</b>						
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
<b>Florida</b>						
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

As of and for the Nine Months Ended September 30, 2013

	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
(dollars in thousands)						
<b>Illinois/Indiana</b>						
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
<b>Florida</b>						
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

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

	As of September 30, 2014						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other		Total
	(dollars in thousands)						
<b>Illinois/Indiana</b>							
Amount allocated to:							
Loans individually evaluated for impairment	\$ 590	\$ 1,139	\$ 48	\$ 25	\$	\$	\$ 1,802
Loans collectively evaluated for impairment	8,044	16,534	2,105	8,523	298		35,504
Ending Balance	\$ 8,634	\$ 17,673	\$ 2,153	\$ 8,548	\$ 298	\$	\$ 37,306
<b>Loans:</b>							
Loans individually evaluated for impairment	\$ 2,410	\$ 4,021	\$ 918	\$ 2,482	\$	\$	\$ 9,831
Loans collectively evaluated for impairment	543,619	965,262	61,856	467,921	10,007		2,048,665
Ending Balance	\$ 546,029	\$ 969,283	\$ 62,774	\$ 470,403	\$ 10,007	\$	\$ 2,058,496
<b>Florida</b>							
Amount allocated to:							
Loans individually evaluated for impairment	\$	\$ 382	\$	\$ 337	\$ 8	\$	\$ 727
Loans collectively evaluated for impairment	1,255	4,710	180	2,832	4		8,981
Ending Balance	\$ 1,255	\$ 5,092	\$ 180	\$ 3,169	\$ 12	\$	\$ 9,708
<b>Loans:</b>							
Loans individually evaluated for impairment	\$	\$ 4,651	\$ 634	\$ 9,422	\$ 8	\$	\$ 14,715
Loans collectively evaluated for impairment	18,794	163,550	16,411	95,316	543		294,614
Ending Balance	\$ 18,794	\$ 168,201	\$ 17,045	\$ 104,738	\$ 551	\$	\$ 309,329

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	As of December 31, 2013						Total
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other		
(dollars in thousands)							
<b>Illinois/Indiana</b>							
Amount allocated to:							
Loans individually evaluated for impairment	\$ 485	\$ 1,977	\$ 468	\$ 604	\$	\$	\$ 3,534
Loans collectively evaluated for impairment	7,967	14,402	2,072	6,258	216		30,915
Ending Balance	\$ 8,452	\$ 16,379	\$ 2,540	\$ 6,862	\$ 216	\$	\$ 34,449
<b>Loans:</b>							
Loans individually evaluated for impairment	\$ 2,286	\$ 7,411	\$ 3,862	\$ 5,277	\$	\$	\$ 18,836
Loans collectively evaluated for impairment	557,790	924,607	57,567	413,020	8,515		1,961,499
Ending Balance	\$ 560,076	\$ 932,018	\$ 61,429	\$ 418,297	\$ 8,515	\$	\$ 1,980,335
<b>Florida</b>							
Amount allocated to:							
Loans individually evaluated for impairment	\$	\$ 416	\$	\$ 337	\$	\$	\$ 753
Loans collectively evaluated for impairment	1,926	5,317	1,168	3,950	4		12,365
Ending Balance	\$ 1,926	\$ 5,733	\$ 1,168	\$ 4,287	\$ 4	\$	\$ 13,118
<b>Loans:</b>							
Loans individually evaluated for impairment	\$	\$ 5,265	\$ 417	\$ 9,542	\$	\$	\$ 15,224
Loans collectively evaluated for impairment	20,536	154,990	17,009	92,814	552		285,901
Ending Balance	\$ 20,536	\$ 160,255	\$ 17,426	\$ 102,356	\$ 552	\$	\$ 301,125

**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, 2014	December 31, 2013
(dollars in thousands)		
Balance at end of period	\$ 157,282	\$ 172,348
Weighted average interest rate at end of period	0.11%	0.13%
Maximum outstanding at any month end in year-to-date period	\$ 157,282	\$ 172,348
Average daily balance for the year-to-date period	\$ 137,424	\$ 137,777
Weighted average interest rate during period (1)	0.11%	0.14%

(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,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Net income available to common stockholders	\$ 8,927	\$ 7,024	\$ 24,636	\$ 19,081
Shares:				
Weighted average common shares outstanding	86,920	86,801	86,894	86,745
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	419	275	368	299
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	87,339	87,076	87,262	87,044
Basic earnings per common share	\$ 0.10	\$ 0.08	\$ 0.28	\$ 0.22
Diluted earnings per common share	\$ 0.10	\$ 0.08	\$ 0.28	\$ 0.22

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 common share is computed using the treasury stock method and reflects the potential dilution that could occur if the Company's outstanding stock options were exercised and restricted stock units were vested. Stock options and restricted stock units for which the exercise or the grant price exceeds the average market price over the period have an anti-dilutive effect and are excluded from the calculation. At September 30, 2014, 457,630 outstanding options, 573,833 warrants, and 353,976 restricted stock units were anti-dilutive and 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.

**Note 7: Stock-based Compensation**

The Company grants share-based compensation awards to its employees and members of its board of directors as provided for under the Company's 2010 Equity Incentive Plan. The Company currently grants share-based compensation in the form of restricted stock units ( RSUs ) and deferred stock units ( DSUs ). The Company also has outstanding stock options granted prior to 2011. Under the terms of the Company's 2010 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises and grants of RSUs and DSUs from its inventory of treasury stock. As of September 30, 2014, the Company held 1,442,257 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, 2013. 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.

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A summary of the status of and changes in the Company's stock option awards for the nine months ended September 30, 2014 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	696,379	\$ 17.22	
Granted			
Exercised			
Forfeited	186,249	19.67	
Outstanding at end of period	510,130	\$ 16.33	1.97
Exercisable at end of period	510,130	\$ 16.33	1.97

The Company did not record any stock option compensation expense for the three and nine months ended September 30, 2014 or 2013.

A summary of the changes in the Company's stock unit awards for the nine months ended September 30, 2014, is as follows:

	Restricted Stock Units	Director Deferred Stock Units	Total	Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	914,968	34,014	948,982	\$ 4.96
Granted	304,277	49,699	353,976	5.84
Dividend Equivalents Earned	25,150	1,051	26,201	5.53
Vested	(15,728)	(29,491)	(45,219)	5.02
Forfeited	(44,109)		(44,109)	4.73
Non-vested at end of period	1,184,558	55,273	1,239,831	\$ 5.23
Outstanding at end of period	1,184,558	144,822	1,329,380	\$ 5.22

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 compound based upon the updated unit balances. Upon vesting/delivery, shares are expected to be issued from treasury.

On June 23, 2014, under the terms of the 2010 Equity Incentive Plan, the Company granted 304,277 RSUs to members of management. As the stock price on the grant date of June 23, 2014 was \$5.84, total compensation cost to be recognized is \$1.8 million. This cost will be recognized over a period of two to five years. Subsequent to each requisite service period, the awards will vest 100%.

Additionally, on June 23, 2014, under the terms of the 2010 Equity Incentive Plan, the Company granted 36,000 DSUs to directors. As the stock price on the grant date of June 23, 2014 was \$5.84, total compensation cost to be recognized is \$0.2 million. This cost will be recognized over the requisite service period of one year from the date of grant or the next annual shareholders' meeting; whichever is earlier. The Company also granted 13,699 DSUs to the Chairman of the Board. As the stock price on the grant date of June 23, 2014 was \$5.84, total compensation cost to be recognized is \$0.1 million. This cost will be recognized over a period of five years. Subsequent to the requisite service period, the awards will vest 100%. These DSUs generally are subject to the same terms as RSUs under the Company's 2010 Equity Incentive Plan, except that,

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following vesting, settlement occurs within 30 days following the earlier of separation from the Board or a change in control of the Company. Subsequent to vesting and prior to delivery, these units will continue to earn dividend equivalents.

The Company recognized \$0.3 million of compensation expense related to non-vested stock units for the three months ended September 30, 2014 and 2013. The Company recognized \$0.8 million and \$0.7 million of compensation expense related to non-vested stock units for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was \$3.9 million of total unrecognized compensation cost related to these non-vested stock units. This cost is expected to be recognized over a period of 3.7 years.

**Note 8: Income Taxes**

At September 30, 2014, the Company was under examination by the Illinois Department of Revenue for the Company's 2011 and 2012 income tax filings.

**Note 9: Outstanding Commitments and Contingent Liabilities**

*Legal Matters*

The Company is a party to legal actions which arise in the normal course of its 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.

*Credit Commitments and Contingencies*

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. 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's exposure to credit loss is represented by the contractual amount of those commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the contractual amount of the Company's exposure to off-balance-sheet risk relating to the Company's commitments to extend credit and standby letters of credit follows:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 575,586	\$ 527,614
Standby letters of credit	13,601	10,155

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

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do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company 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 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 holds 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 would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2014 and December 31, 2013, no amounts were recorded as liabilities for the Company's potential obligations under these guarantees.

**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, 2013.

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

	Goodwill		Total Assets	
	September 30, 2014 (dollars in thousands)	December 31, 2013	September 30, 2014 (dollars in thousands)	December 31, 2013 (dollars in thousands)
<b>Goodwill &amp; Total Assets:</b>				
Busey Bank	\$	\$	\$ 3,446,041	\$ 3,456,555
FirsTech	8,992	8,992	28,135	27,253
Busey Wealth Management	11,694	11,694	30,273	28,548
All Other			16,468	27,219
Total	\$ 20,686	\$ 20,686	\$ 3,520,917	\$ 3,539,575
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014 (dollars in thousands)	2013	2014 (dollars in thousands)	2013 (dollars in thousands)
<b>Interest Income:</b>				
Busey Bank	\$ 27,430	\$ 27,167	\$ 80,184	\$ 81,597
FirsTech	14	13	39	39
Busey Wealth Management	74	62	214	179
All Other	(7)	(6)	(19)	(4)
Total interest income	\$ 27,511	\$ 27,236	\$ 80,418	\$ 81,811
<b>Interest Expense:</b>				
Busey Bank	\$ 1,312	\$ 1,709	\$ 4,072	\$ 5,858
FirsTech				
Busey Wealth Management				
All Other	288	294	857	892
Total interest expense	\$ 1,600	\$ 2,003	\$ 4,929	\$ 6,750
<b>Other Income:</b>				
Busey Bank	\$ 7,917	\$ 9,447	\$ 24,705	\$ 29,542
FirsTech	2,412	2,167	7,208	6,445
Busey Wealth Management	4,426	4,540	14,077	13,286
All Other	(551)	(524)	(1,788)	(1,219)
Total other income	\$ 14,204	\$ 15,630	\$ 44,202	\$ 48,054
<b>Net Income:</b>				
Busey Bank	\$ 8,195	\$ 6,963	\$ 22,910	\$ 19,243
FirsTech	322	259	957	807
Busey Wealth Management	1,176	1,173	3,579	3,126
All Other	(584)	(462)	(2,265)	(1,370)
Total net income	\$ 9,109	\$ 7,933	\$ 25,181	\$ 21,806

**Note 11: Derivative Financial Instruments**

Starting in the first quarter of 2014, the Company began entering into loan agreements that settled in non-U.S. dollar denominations. The foreign loan balance, gross, translated into U.S. dollars as of September 30, 2014 was \$1.4 million.

*Foreign Currency Derivatives.* The Company enters into foreign currency forward contracts that are not designated as hedging instruments to mitigate the economic effect of fluctuations in foreign currency exchange rates on certain non-U.S. dollar denominated loans. Due to the foreign loan activity beginning in 2014, the Company implemented a new accounting policy based on existing accounting standards. Because the foreign currency forward contracts do not meet hedge accounting requirements, gains and losses due to changes in their fair values are recognized in other income.

The notional amount and fair values of open foreign currency forward contracts were as follows:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Forward contracts foreign exchange:		
Notional amount	\$ 1,392	\$
Other assets estimated fair value	13	
Other liabilities estimated fair value		

The amount of gains and losses relating to foreign currency forward contracts included in other income for the three and nine months ended September 30, 2014 was insignificant.

Foreign currency forward contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. We believe the risk of incurring losses due to nonperformance by our counterparties is manageable.

As of September 30, 2014, the Company had no other interest rate 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, which netted to an insignificant amount.

**Note 12: Fair Value Measurements**

The fair value of an asset or liability is the price that would be received by selling that asset or paid in transferring 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, 2014.

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.

*Derivative Assets and Derivative Liabilities.* Derivative assets and derivative liabilities are reported at fair value utilizing level 2 measurements. Derivative instruments with positive fair values are reported as an asset and derivative instruments with negative fair value are reported as liabilities. The fair value of derivative assets and liabilities is determined based on prices obtained from a third party. Values of derivative assets and liabilities are primarily based on observable inputs and are classified as level 2 in the ASC 820 fair value hierarchy.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs (dollars in thousands)	Level 3 Inputs	Total Fair Value
<b>September 30, 2014</b>				
<b>Securities available for sale</b>				
U.S. Treasury securities	\$	\$ 50,577	\$	\$ 50,577
Obligations of U.S. government corporations and agencies		188,636		188,636
Obligations of states and political subdivisions		237,162		237,162
Residential mortgage-backed securities		245,572		245,572
Corporate debt securities		73,958		73,958
Mutual funds and other equity securities	7,160			7,160
<b>Derivative assets</b>				
Foreign currency forward contracts		13		13
<b>Derivative liabilities</b>				
Foreign currency forward contracts				
<b>December 31, 2013</b>				
<b>Securities available for sale</b>				
U.S. Treasury securities	\$	\$ 102,640	\$	\$ 102,640
Obligations of U.S. government corporations and agencies		257,411		257,411
Obligations of states and political subdivisions		272,152		272,152
Residential mortgage-backed securities		177,735		177,735
Corporate debt securities		25,506		25,506
Mutual funds and other equity securities	5,866			5,866

Certain financial assets and financial liabilities are measured at fair value on a non-recurring 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, 2014 and December 31, 2013, 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)			
<b>September 30, 2014</b>				
Impaired loans	\$	\$	\$ 2,460	\$ 2,460
OREO				
<b>December 31, 2013</b>				
Impaired loans	\$	\$	\$ 5,491	\$ 5,491
OREO			1,134	1,134

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:

	Fair Value Estimate (dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements		Range (Weighted Average)
		Valuation Techniques	Unobservable Input	
<b>September 30, 2014</b>				
Impaired loans	\$ 2,460	Appraisal of collateral	Appraisal adjustments	-0.6% to -100.0% (-48.0%)
OREO		Appraisal of collateral	Appraisal adjustments	-% (-%)
<b>December 31, 2013</b>				
Impaired loans	\$ 5,491	Appraisal of collateral	Appraisal adjustments	-0.4% to -100.0% (-36.0%)
OREO	1,134	Appraisal of collateral	Appraisal adjustments	-6.6% to -100.0% (-47.9%)

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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, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(dollars in thousands)				
Financial assets:				
Level 2 inputs:				
Cash and due from banks	\$ 179,724	\$ 179,724	\$ 231,603	\$ 231,603
Securities held to maturity	2,384	2,421	834	831
Loans held for sale	12,090	12,355	13,840	14,103
Accrued interest receivable	12,219	12,219	11,148	11,148
Level 3 inputs:				
Loans, net	2,320,811	2,323,621	2,233,893	2,236,841
Financial liabilities:				
Level 2 inputs:				
Deposits	\$ 2,825,394	\$ 2,825,499	\$ 2,869,138	\$ 2,870,870
Securities sold under agreements to repurchase	157,282	157,282	172,348	172,348
Long-term debt	30,000	30,000		
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000	55,000	55,000
Accrued interest payable	527	527	673	673

The fair value of loans, net reflects general changes in the interest rate curve used to calculate fair values based on cash flows.

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, 2013.

During the third quarter of 2014, the Company executed \$30.0 million in Federal Home Loan Bank ( FHLB ) overnight discount note indexed advances. The variable rate notes range in maturity from seven to ten years with options to prepay at par prior to maturity.

**Note 13: Pending Acquisitions**

On September 25, 2014, the Company entered into an Agreement and Plan of Merger (the Merger Agreement ) by and among First Busey, FBC Acquisition LLC, a newly-formed Nevada limited liability corporation and wholly-owned subsidiary of First Busey, and Herget Financial Corp., a Delaware corporation ( Herget Financial ), pursuant to which First Busey will acquire Herget Financial and its wholly-owned bank subsidiary, Herget Bank, National Association ( Herget Bank ). Under the terms of the Merger Agreement, First Busey will acquire 100% of Herget Financial's outstanding common stock for aggregate cash consideration of \$34.1 million. Each share of Herget Financial common stock will be entitled to receive \$588.00 in cash. The merger consideration is subject to certain downward adjustments as set forth in the Merger Agreement. It is anticipated that Herget Bank will be merged with and into First Busey's bank subsidiary, Busey Bank, upon completion of the transaction. At that time, Herget Bank's banking offices will become branches of Busey Bank. As of September 30, 2014, Herget Financial and Herget Bank had

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total consolidated assets of \$275.1 million. The merger is anticipated to be completed in early 2015, and is subject to the satisfaction of the closing conditions in the Merger Agreement and the approval of the appropriate regulatory authorities.

**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 its subsidiaries (referred to herein as First Busey, Company, we, or our ) at September 30, 2014 (unaudited), as compared with June 30, 2014 (unaudited), December 31, 2013 and September 30, 2013 (unaudited), and the results of operations for the three and nine months ended September 30, 2014 and 2013 (unaudited), and, in certain instances, the three months ended June 30, 2014 (unaudited). 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, 2013.

**EXECUTIVE SUMMARY**

*Operating Results*

First Busey Corporation's net income for the third quarter of 2014 was \$9.1 million and net income available to common stockholders was \$8.9 million, or \$0.10 per fully-diluted common share. Net income increased from the third quarter of 2013, when the Company reported net income of \$7.9 million and net income available to common stockholders of \$7.0 million, or \$0.08 per fully-diluted common share. Net income available to common stockholders also grew 12% on a linked-quarter basis. For the second quarter of 2014, the Company reported net income of \$8.2 million and net income available to common stockholders of \$8.0 million, or \$0.09 per fully-diluted common share.

The Company's year-to-date net income through September 30, 2014 was \$25.2 million and net income available to common stockholders was \$24.6 million, or \$0.28 per fully-diluted common share, compared to net income of \$21.8 million and net income available to common stockholders of \$19.1 million, or \$0.22 per fully-diluted common share, for the comparable period of 2013.

Net interest income of \$25.9 million in the third quarter of 2014 increased from \$25.0 million in the second quarter of 2014, and \$25.2 million recorded in the third quarter of 2013. Net interest income for the first nine months of 2014 was \$75.5 million compared to \$75.1 million for the same period of 2013. Gross loans at September 30, 2014 increased \$55.8 million from June 30, 2014, despite a drop in held for sale loans of \$8.2 million during the period.

Robust loan growth during 2013 pushed Small Business Lending Fund qualified credits above certain thresholds required to meaningfully reduce costs of the Company's preferred stock dividend beginning in 2014. Dividends paid on the preferred stock totaled \$0.5 million for the first nine months of 2014 compared to \$2.7 million for the comparable period of 2013. In addition, credit quality and related costs continued to improve. As net charge-offs and non-performing loans trended significantly lower, the provision for loan loss fell to zero in the third quarter of 2014, a decrease from \$1.0 million in the second quarter of 2014 and \$2.0 million in the third quarter of 2013. For the first nine months of 2014, the provision for loan loss was \$2.0 million, compared to \$6.0 million for the same period of 2013. With a continued commitment to the quality of assets and the strength of our balance sheet, near-term loan losses are expected to remain at lower levels.

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Busey Wealth Management's net income of \$1.2 million for the third quarter of 2014 seasonally declined from \$1.4 million for the second quarter of 2014 but was comparable to the third quarter of 2013. Busey Wealth Management's net income for the first nine months of 2014 was \$3.6 million as compared to \$3.1 million for the first nine months of 2013. Assets under care increased to \$5.0 billion as of September 30, 2014 compared to \$4.7 billion at September 30, 2013. FirsTech's net income of \$0.3 million for the third quarter of 2014 was comparable to the second quarter of 2014 and increased from the third quarter of 2013 by 24.3%. FirsTech's year-to-date net income of \$1.0 million increased from \$0.8 million for the comparable period of 2013, primarily due to growth in electronic processing revenues, including online and mobile services.

*Asset Quality*

While much internal focus has been directed toward organic growth, the Company's commitment to credit quality remains strong, as evidenced by another quarter of meaningful progress across a range of credit indicators. As of September 30, 2014, the Company reported non-performing loans of \$8.7 million, the lowest level in over six years. Net charge-offs for the third quarter of 2014 also reflected yet another low at \$0.4 million for the quarter, compared to \$1.0 million for second quarter of 2014 and \$2.5 million for the third quarter of 2013. Net charge-offs for the first nine months of 2014 were \$2.6 million, compared to \$6.0 million for the same period of 2013. When determining whether to record a third quarter provision expense, the Company considered standard GAAP measures along with a \$2.0 million recovery that was recorded early in the fourth quarter of 2014. While these improvements are encouraging, many asset quality metrics remain 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)*

	September 30, 2014	As of and for the Three Months Ended			September 30, 2013
		June 30, 2014	December 31, 2013		
<b>ASSET QUALITY</b>					
Gross loans(1)	\$ 2,379,915	\$ 2,324,068	\$ 2,295,300	\$ 2,250,605	
Commercial loans(2)	1,782,126	1,737,751	1,751,740	1,695,583	
Allowance for loan losses	47,014	47,428	47,567	47,964	
<b>Non-performing loans</b>					
Non-accrual loans	8,681	11,232	17,164	18,489	
Loans 90+ days past due	65	235	195	199	
<b>Non-performing loans, segregated by geography</b>					
Illinois/ Indiana	5,285	8,273	13,565	14,451	
Florida	3,461	3,194	3,794	4,237	
Loans 30-89 days past due	6,350	1,766	6,114	2,283	
Other non-performing assets	216	1,622	2,133	2,156	
Non-performing assets to total loans and non-performing assets	0.4%	0.6%	0.9%	0.9%	
Allowance as a percentage of non-performing loans	537.6%	413.6%	274.0%	256.7%	
Allowance for loan losses to loans	2.0%	2.0%	2.1%	2.1%	

(1) Includes loans held for sale.

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

Gross loans at September 30, 2014 increased \$55.8 million from June 30, 2014. Gross loans increased to \$2.4 billion at September 30, 2014 from \$2.3 billion at each of June 30, 2014, December 31, 2013 and September 30, 2013. Commercial loans increased to \$1.8 billion as of September 30, 2014, which represents an increase of 2.6% from June 30, 2014 and 5.1% from September 30, 2013.



*Economic Conditions of Markets*

Our primary markets, which are in micro-urban communities in downstate Illinois, are distinct from the smaller rural populations of Illinois and have strong industrial, academic or healthcare employment bases. Our primary downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, familiar and stable organizations.

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 home to the North American headquarters for 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. 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.

The State of Illinois, where the largest portion of the Company’s customer base is located, continues to be one of the most troubled of any state in the United States with pension under-funding, continued budget deficits and a declining credit outlook. Additionally, the Company is located in markets with significant universities and healthcare companies, which rely heavily on state funding and contracts. Payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market areas.

Southwest Florida has shown continuing signs of improvement in areas such as job growth and home sales over the last few years. In addition, median sales prices of homes in Florida continue to be on the rise. Although we have seen recent improvement in certain economic indicators, we expect it will still take southwest Florida a few more years to return to peak economic strength. In 2013, Hertz Global Holdings, a Fortune 500 company, announced its intent to move its headquarters from New Jersey to southwest Florida, building a new world headquarters in Lee County. It is estimated that the new headquarters will bring at least 700 jobs to the area.

**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 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, 2014 AND 2013

	Average Balance	2014 Income/ Expense	Yield/ Rate(3)	Average Balance	2013 Income/ Expense	Yield/ Rate(3)	Change in income/ expense due to(1)		
							Average Volume	Average Yield/Rate	Total Change
<b>Assets</b>									
Interest-bearing bank deposits	\$ 104,158	\$ 67	0.26%	\$ 114,012	\$ 74	0.26%	\$ (6)	\$ (1)	\$ (7)
<b>Investment securities</b>									
U.S. Government obligations	252,385	802	1.26%	405,316	1,339	1.31%	(488)	(49)	(537)
Obligations of states and political subdivisions(1)	241,237	1,605	2.64%	295,024	1,975	2.66%	(358)	(12)	(370)
Other securities	336,882	1,921	2.26%	224,293	1,278	2.26%	642	1	643
Loans(1) (2)	2,345,718	23,620	3.99%	2,162,138	23,162	4.25%	1,897	(1,439)	458
Total interest-earning assets(1)	\$ 3,280,380	\$ 28,015	3.39%	\$ 3,200,783	\$ 27,828	3.45%	\$ 1,687	\$ (1,500)	\$ 187
Cash and due from banks	85,678			111,168					
Premises and equipment	64,947			68,230					
Allowance for loan losses	(47,679)			(48,393)					
Other assets	141,798			160,572					
Total Assets	\$ 3,525,124			\$ 3,492,360					
<b>Liabilities and Stockholders Equity</b>									
<b>Interest-bearing transaction deposits</b>									
Savings deposits	\$ 212,061	\$ 10	0.02%	\$ 203,836	\$ 11	0.02%		(1)	(1)
Money market deposits	1,480,081	439	0.12%	1,468,892	420	0.11%	3	16	19
Time deposits	526,226	804	0.61%	618,181	1,218	0.78%	(165)	(249)	(414)
<b>Short-term borrowings:</b>									
Federal funds purchased	1,114	1	0.36%			%	1		1
Repurchase agreements	146,230	40	0.11%	129,485	44	0.13%	5	(9)	(4)
Other	272		%			%			
Long-term debt	4,826	1	0.08%			%	1		1
<b>Junior subordinated debt owed to unconsolidated trusts</b>									
	55,000	298	2.15%	55,000	303	2.19%		(5)	(5)
Total interest-bearing liabilities	\$ 2,472,820	\$ 1,600	0.26%	\$ 2,523,989	\$ 2,003	0.31%	\$ (155)	\$ (248)	\$ (403)
Net interest spread(1)			3.13%			3.14%			
<b>Noninterest-bearing deposits</b>									
	601,220			529,480					
Other liabilities	24,725			29,299					
Stockholders equity	426,359			409,592					
Total Liabilities and Stockholders Equity	\$ 3,525,124			\$ 3,492,360					
Interest income / earning assets(1)	\$ 3,280,380	\$ 28,015	3.39%	\$ 3,200,783	\$ 27,828	3.45%			
Interest expense / earning assets	\$ 3,280,380	\$ 1,600	0.20%	\$ 3,200,783	\$ 2,003	0.25%			

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Net interest margin(1)	\$	26,415	3.19%	\$	25,825	3.20%	\$	1,842	\$	(1,252)	\$	590
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- (1) On a tax-equivalent basis assuming a federal income tax rate of 35%.
  - (2) Non-accrual loans have been included in average loans.
  - (3) Annualized.

## AVERAGE BALANCE SHEETS AND INTEREST RATES

## NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

	Average Balance	2014			2013			Change in income/ expense due to(1)		
		Income/ Expense	Yield/ Rate(3)	Average Balance	Income/ Expense	Yield/ Rate(3)	Average Volume	Average Yield/Rate	Total Change	
<b>Assets</b>										
Interest-bearing bank deposits	\$ 146,744	\$ 282	0.26%	\$ 208,275	\$ 387	0.25%	\$ (117)	\$ 12	\$ (105)	
<b>Investment securities</b>										
U.S. Government obligations	287,383	2,785	1.30%	434,160	4,456	1.37%	(1,434)	(237)	(1,671)	
Obligations of states and political subdivisions(1)	250,281	4,966	2.65%	288,273	5,786	2.68%	(755)	(65)	(820)	
Other securities	303,544	5,194	2.29%	227,662	3,507	2.06%	1,266	421	1,687	
Loans(1) (2)	2,277,343	68,717	4.03%	2,094,640	69,457	4.43%	5,790	(6,530)	(740)	
Total interest-earning assets(1)	\$ 3,265,295									