FIRST BUSEY CORP /NV/
Form 10-Q
November 04, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 9/30/2011

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	**Outstanding at November 4, 2011**
Common Stock, $.001 par value	86,596,527

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

September 30, 2011 and December 31, 2010

(Unaudited)

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Assets		
Cash and due from banks	$ 289,144	$ 418,965
Securities available for sale	795,403	599,459
Loans held for sale	36,199	49,684
Loans (net of allowance for loan losses 2011 $63,915; 2010 $76,038)	1,999,200	2,243,055
Premises and equipment	70,179	73,218
Goodwill	20,686	20,686
Other intangible assets	16,903	19,556
Cash surrender value of bank owned life insurance	37,592	37,425
Other real estate owned (OREO)	11,577	9,160
Deferred tax asset, net	50,188	64,240
Other assets	65,814	69,555
Total assets	$ 3,392,885	$ 3,605,003
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 467,775	$ 460,661
Interest bearing	2,288,686	2,455,705
Total deposits	$ 2,756,461	$ 2,916,366
Securities sold under agreements to repurchase	129,905	138,982
Long-term debt	19,834	43,159
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	24,219	30,991
Total liabilities	$ 2,985,419	$ 3,184,498
Stockholders Equity		
Series C Preferred stock, $.001 par value, 2011 72,664 shares authorized, issued and outstanding, 2010 none, $1,000.00 liquidation value	$ 72,664	$
Series T Preferred stock, $.001 par value, 1,000,000 shares authorized, issued and outstanding 2011 none; 2010 100,000 shares, $1,000.00 liquidation value		99,590
Series B Preferred stock, $.001 par value, authorized 318.6225 shares; issued and outstanding 2011 none; 2010 318.6225 shares, $100,000.00 liquidation value		31,862
Common stock, $.001 par value, authorized 200,000,000 shares; issued 2011 88,287,132; issued 2010 80,790,132	88	81
Additional paid-in capital	594,178	562,375
Accumulated deficit	(239,441)	(249,418)
Accumulated other comprehensive income	12,994	9,032
Total stockholders equity before treasury stock and unearned ESOP shares	$ 440,483	$ 453,522
Common stock shares held in treasury at cost 1,650,605	(32,183)	(32,183)
Unearned ESOP shares 40,000 shares	(834)	(834)
Total stockholders equity	$ 407,466	$ 420,505
Total liabilities and stockholders equity	$ 3,392,885	$ 3,605,003
Common shares outstanding at period end	86,596,527	79,099,527

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

		2011		2010
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	87,924	$	105,906
Interest and dividends on investment securities:				
Taxable interest income		11,557		10,984
Non-taxable interest income		2,099		2,247
Dividends		10		7
Total interest income	$	101,590	$	119,144
Interest expense:				
Deposits	$	14,536	$	26,544
Securities sold under agreements to repurchase		298		440
Short-term borrowings		29		44
Long-term debt		1,212		2,313
Junior subordinated debt owed to unconsolidated trusts		1,600		2,063
Total interest expense	$	17,675	$	31,404
Net interest income	$	83,915	$	87,740
Provision for loan losses		15,000		31,700
Net interest income after provision for loan losses	$	68,915	$	56,040
Other income:				
Trust fees	$	11,765	$	10,758
Commissions and brokers fees, net		1,415		1,309
Remittance processing		7,119		7,116
Service charges on deposit accounts		9,513		8,319
Other service charges and fees		3,963		3,807
Gain on sales of loans		7,444		9,984
Security (losses) gains, net		(2)		1,025
Other		2,786		3,230
Total other income	$	44,003	$	45,548
Other expenses:				
Salaries and wages	$	30,678	$	30,271
Employee benefits		7,759		7,669
Net occupancy expense of premises		6,762		6,947
Furniture and equipment expense		3,958		4,602
Data processing		6,425		5,855
Amortization of intangible assets		2,653		3,067
Regulatory expense		3,652		5,302
OREO expense		459		1,443
Other		14,228		14,766
Total other expenses	$	76,574	$	79,922
Income before income taxes	$	36,344	$	21,666
Income taxes		12,217		5,742
Net income	$	24,127	$	15,924
Preferred stock dividends and discount accretion		4,108		3,848
Net income available to common stockholders	$	20,019	$	12,076
Basic earnings per common share	$	0.24	$	0.18
Diluted earnings per common share	$	0.24	$	0.18

Dividends declared per share of common stock	$ 0.12	$ 0.12

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended September 30, 2011 and 2010

(Unaudited)

		2011		2010
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	28,243	$	34,326
Interest and dividends on investment securities:				
Taxable interest income		3,845		3,383
Non-taxable interest income		717		751
Dividends		6		7
Total interest income	$	32,811	$	38,467
Interest expense:				
Deposits	$	4,457	$	7,334
Securities sold under agreements to repurchase		87		129
Short-term borrowings		9		41
Long-term debt		230		629
Junior subordinated debt owed to unconsolidated trusts		301		699
Total interest expense	$	5,084	$	8,832
Net interest income	$	27,727	$	29,635
Provision for loan losses		5,000		9,500
Net interest income after provision for loan losses	$	22,727	$	20,135
Other income:				
Trust fees	$	3,460	$	3,113
Commissions and brokers fees, net		495		398
Remittance processing		2,335		2,263
Service charges on deposit accounts		3,283		2,858
Other service charges and fees		1,341		1,304
Gain on sales of loans		2,977		4,104
Security gains, net				283
Other		827		527
Total other income	$	14,718	$	14,850
Other expenses:				
Salaries and wages	$	11,090	$	10,537
Employee benefits		2,494		2,487
Net occupancy expense of premises		2,211		2,374
Furniture and equipment expense		1,294		1,493
Data processing		2,145		2,008
Amortization of intangible assets		885		1,022
Regulatory expense		497		2,155
OREO expense		112		380
Other		4,996		4,586
Total other expenses	$	25,724	$	27,042
Income before income taxes	$	11,721	$	7,943
Income taxes		4,151		1,921
Net income	$	7,570	$	6,022
Preferred stock dividends and discount accretion		1,049		1,283
Net income available to common stockholders	$	6,521	$	4,739
Basic earnings per common share	$	0.08	$	0.07
Diluted earnings per common share	$	0.08	$	0.07
Dividends declared per share of common stock	$	0.04	$	0.04

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	2011	2010
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 24,127	$ 15,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	309	126
Depreciation and amortization	6,814	7,798
Provision for loan losses	15,000	31,700
Provision for deferred income taxes	10,915	5,762
Amortization of security premiums and discounts, net	4,606	3,476
Security losses (gains), net	2	(1,025)
Gain on sales of loans, net	(7,444)	(9,984)
Net (gain) loss on sales of OREO properties	(101)	1,224
Increase in cash surrender value of bank owned life insurance	(167)	(1,357)
Change in assets and liabilities:		
Decrease in other assets	4,069	2,182
Decrease in other liabilities	(4,868)	(1,483)
Decrease in interest payable	(1,507)	(4,321)
Increase in income taxes receivable	(328)	
Net cash provided by operating activities before loan originations and sales	$ 51,427	$ 50,022
Loans originated for sale	(324,090)	(450,290)
Proceeds from sales of loans	345,019	437,879
Net cash provided by operating activities	$ 72,356	$ 37,611
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	10,675	40,886
Proceeds from maturities of securities classified available for sale	85,337	138,891
Purchase of securities classified available for sale	(289,465)	(157,450)
Decrease in loans	219,976	237,785
Proceeds from disposition of premises and equipment	946	158
Proceeds from sale of OREO properties	6,563	14,991
Purchases of premises and equipment	(2,068)	(1,723)
Net cash provided by investing activities	$ 31,964	$ 273,538

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Nine Months Ended September 30, 2011 and 2010

(Unaudited)

	2011	2010
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	$ (182,559)	$ (351,872)
Net increase in demand, money market and savings deposits	22,654	104,997
Cash dividends paid	(14,498)	(11,713)
Net decrease in securities sold under agreements to repurchase	(9,077)	(11,906)
Proceeds from short-term borrowings		4,000
Principal payments on long-term debt	(23,325)	(29,500)
Repurchase of Series T Preferred Stock	(100,000)	
Proceeds from issuance of Series C Preferred Stock	72,664	
Net cash used in financing activities	$ (234,141)	$ (295,994)
Net (decrease) increase in cash and due from banks	$ (129,821)	$ 15,155
Cash and due from banks, beginning	$ 418,965	$ 207,071
Cash and due from banks, ending	$ 289,144	$ 222,226
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 19,183	$ 35,725
Income taxes	$ 2,756	$ 1,251
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	$ 8,879	$ 10,444
Dividends accrued	$ 378	$ 752
Conversion of Series B Preferred stock to Common stock	$ 31,862	$

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 7,570	$ 6,022	$ 24,127	$ 15,924
Other comprehensive income, before tax:				
Unrealized net (losses) gains on securities:				
Unrealized net holding gains arising during period	$ 2,980	$ 2,162	$ 7,097	$ 7,845
Reclassification adjustment for losses (gains) included in net income		(283)	2	(1,025)
Other comprehensive income, before tax	$ 2,980	$ 1,879	$ 7,099	$ 6,820
Income tax expense related to items of other comprehensive income	1,227	747	3,137	2,711
Other comprehensive income, net of tax	$ 1,753	$ 1,132	$ 3,962	$ 4,109
Comprehensive income	$ 9,323	$ 7,154	$ 28,089	$ 20,033

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 (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

The accompanying consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, including valuation of real estate and related loan collateral, and valuation allowance on the deferred tax asset.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended September 30, 2011 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

Note 2: Recent Accounting Pronouncements

FASB ASC Topic 220, Presentation of Comprehensive Income. New authoritative accounting guidance (Accounting Standards Update No. 2011-05) under ASC Topic 220 amends Topic 220, Comprehensive Income, to require all nonowner changes in stockholders equity to be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update will be effective for the annual periods beginning after December 15, 2011, and will result in a change to the presentation of comprehensive income in the Company s financial statements.

FASB ASC Topic 310, Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. On July 21, 2010, new authoritative accounting guidance (Accounting Standards Update No. 2010-20) under ASC Topic 310 was issued which requires an entity to provide more information in its disclosures about the credit quality of its financing receivables and the credit reserves held against them. This statement addresses only disclosures and does not change recognition or measurement. The new authoritative accounting guidance under ASC Topic 310 was effective for the Company s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became required for reporting periods beginning on or after January 1, 2011. Accounting Standards Update No. 2011-01, Receivables (Topic 310)-Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of a proposed accounting standard update related to troubled debt restructurings. Accounting Standards Update No. 2011-02, Receivables (Topic 310)-A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring clarifies which loan modifications constitute troubled debt restructurings. It is intended to help creditors in determining whether a modification of the terms of a receivable meet the criteria to be considered a troubled debt restructuring for the purpose of recording an impairment loss and for disclosure of troubled debt restructurings. Under the new guidance, in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. This update became effective for the Company on July 1, 2011, applying retrospectively to restructuring occurring on or after January 1, 2011 but did not have a significant impact on the Company s financial statements.

FASB ASC Topic 350, Intangibles Goodwill and Other When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. New authoritative accounting guidance (Accounting Standards Update No. 2010-28) under ASC Topic 350 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those units, an entity is required to perform Step 2 of the goodwill impairment test if it is more-likely-than-not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. This update became effective for the Company on January 1, 2011 and did not have a significant impact on the Company s financial statements. Accounting Standards Update No. 2011-08, Intangibles Goodwill and Other (Topic 350)-Testing Goodwill for Impairment, issued in September 2011, simplifies how an entity tests goodwill for impairment. This update allows the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If it is more-likely-than-not, using qualitative assessments, that the fair value of a reporting unit is less than its carrying amount, an entity must still perform the existing two-step impairment test. Otherwise, an entity would not be required to perform the test. This update will be effective for the annual and interim goodwill impairment tests performed after December 15, 2011, and is not expected to have a significant impact on the Company s financial statements.

*FASB ASC Topic 820, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*New authoritative accounting guidance (Accounting Standards Update No. 2011-04) under ASC Topic 820 amends Topic 820 to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. The guidance clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional disclosures. This update will be effective for the annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company s financial statements.

Note 3: Capital

On August 25, 2011, the Company exited the Troubled Asset Relief Program (TARP), and announced the issuance of approximately $72.6 million in preferred stock to the Small Business Lending Fund (the SBLF) to be used to further enhance its business lending efforts. The SBLF is a U.S. Department of the Treasury lending program that encourages qualified community banks to partner with small businesses and entrepreneurs to create jobs and promote economic development in local communities.

Issuance of Preferred Stock Under Small Business Lending Fund

In conjunction with the SBLF s investment in the Company, on August 25, 2011, the Company entered into a Securities Purchase Agreement (the Purchase Agreement) with the U.S. Secretary of the Treasury (the Treasury), pursuant to which the Company issued and sold to the Treasury 72,664 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C (the Series C Preferred Stock), having a liquidation preference of $1,000 per share (the Liquidation Amount), for aggregate proceeds of $72,664,000.

The Series C Preferred Stock qualifies as Tier 1 capital for the Company. Non-cumulative dividends are payable quarterly on the Series C Preferred Stock, beginning October 1, 2011. The dividend rate is calculated as a percentage of the aggregate Liquidation Amount of the outstanding Series C Preferred Stock and will be based on changes in the level of Qualified Small Business Lending or QSBL (as defined in the Purchase Agreement) by the Company s wholly owned subsidiary, Busey Bank (the Bank). Based upon the increase in the Bank s level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period, which is from the date of issuance through September 30, 2011, has been set at 5%. For the 2nd through 10th calendar quarters, the annual dividend rate may be adjusted to between 1% and 5%, to reflect the amount of change in the Bank s level of QSBL. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed at between 1% and 7% based upon the level of QSBL as compared to the baseline. After 4.5 years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%).

The Series C Preferred Stock is non-voting, except in limited circumstances. The Company may redeem the shares of Series C Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company s primary federal banking regulator. The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Redemption of Series T Preferred Stock

The Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the Series T Preferred Stock) was issued to the Treasury on March 6, 2009 in connection with the Company s participation in the TARP Capital Purchase Program (CPP). On August 25, 2011, the Company entered into and consummated the transactions contemplated by a letter agreement (the Repurchase Document) with the Treasury. Under the Repurchase Document, the Company redeemed from the Treasury, in part using the proceeds from the issuance of the Series C Preferred Stock, all 100,000 outstanding shares of its Series T Preferred Stock, for a redemption price of approximately $100.1 million, including accrued but unpaid dividends to the date of redemption.

In connection with the Company s participation in the CPP, the Company also issued to Treasury a warrant to purchase 1,147,666 shares of the Company s common stock. Since the date of the Company s participation in the CPP, it raised additional capital through a public offering of common stock and, as a result of that offering, the number of shares of common stock subject to the warrant were reduced by 50% to 573,833. As of September 30, 2011, this warrant to purchase 573,833 shares of the Company s common stock remained outstanding and held by Treasury.

Series B Convertible Cumulative Preferred Stock Issuance and Subsequent Conversion

On December 28, 2010, the Company completed a registered direct offering, issuing 318.6225 shares of Series B Convertible Cumulative Preferred Stock (the Series B Preferred Stock) at a price of $100,000 per share, or $31.9 million in the aggregate. The Series B Preferred Stock had a liquidation preference of $100,000 per share and annual dividend of 9.0%.

On March 1, 2011, the Company s stockholders approved the conversion of the shares of the Series B Preferred Stock issued December 28, 2010, at $4.25 per share, resulting in an additional 7,497,000 common shares outstanding. Following the conversion, no shares of Series B Preferred Stock remained outstanding.

Note 4: Securities

The amortized cost and fair values of securities classified available for sale are summarized as follows:

September 30, 2011:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
U.S. Treasury securities	$ 45,573	$ 400	$ (129)	$ 45,844
Obligations of U.S. government corporations and agencies	344,985	10,153		355,138
Obligations of states and political subdivisions	125,357	4,314	(56)	129,615
Residential mortgage-backed securities	252,736	6,280	(149)	258,867
Corporate debt securities	2,637	68	(23)	2,682
	771,288	21,215	(357)	792,146
Mutual funds and other equity securities	2,026	1,231		3,257
	$ 773,314	$ 22,446	$ (357)	$ 795,403

December 31, 2010:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
U.S. Treasury securities	$ 306	$ 75	$	$ 381
Obligations of U.S. government corporations and agencies	324,193	9,028	(86)	333,135
Obligations of states and political subdivisions	74,691	2,340	(96)	76,935
Residential mortgage-backed securities	180,578	3,662	(1,234)	183,006
Corporate debt securities	1,443	56		1,499
	581,211	15,161	(1,416)	594,956
Mutual funds and other equity securities	3,258	1,245		4,503
	$ 584,469	$ 16,406	$ (1,416)	$ 599,459

The amortized cost and fair value of debt securities available for sale as of September 30, 2011, 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.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Due in one year or less	$ 110,617	$ 111,787
Due after one year through five years	372,169	383,095
Due after five years through ten years	209,744	214,970
Due after ten years	78,758	82,294
	$ 771,288	$ 792,146

Gains and losses related to sales of securities are summarized as follows:

	Three Months Ended September 30, 2011	2010
	(dollars in thousands)	
Gross security gains	$	$ 283
Gross security (losses)		
Net security (losses) gains	$	$ 283

	Nine Months Ended September 30, 2011	2010
	(dollars in thousands)	
Gross security gains	$	$ 1,025
Gross security (losses)	(2)	
Net security (losses) gains	$ (2)	$ 1,025

The tax provision for these net realized gains and losses was insignificant for the three and nine months ended September 30, 2011 and $0.1 million and $0.4 million for the three and nine months ended September 30, 2010, respectively.

Investment securities with carrying amounts of $418.8 million and $405.7 million on September 30, 2011 and December 31, 2010, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

The following presents information pertaining to securities with gross unrealized losses as of September 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than 12 months		Greater than 12 months		Total	
September 30, 2011:	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(dollars in thousands)			
U.S. Treasury securities	$ 25,063	$ 129	$	$	$ 25,063	$ 129
Obligations of states and political subdivisions	18,471	56			18,471	56
Residential mortgage-backed securities	17,353	149			17,353	149
Corporate debt securities	665	23			665	23
Total temporarily impaired securities	$ 61,552	$ 357	$	$	$ 61,552	$ 357

	Less than 12 months		Greater than 12 months		Total	
December 31, 2010:	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(dollars in thousands)			
Obligations of U.S. government corporations and agencies	$ 15,698	$ 86	$	$	$ 15,698	$ 86
Obligations of states and political subdivisions	8,452	96			8,452	96
Residential mortgage-backed securities	95,926	1,234			95,926	1,234
Total temporarily impaired securities	$ 120,076	$ 1,416	$	$	$ 120,076	$ 1,416

The total number of securities in the investment portfolio in an unrealized loss position as of September 30, 2011 was 41, which represented a loss of 0.58% of the aggregate carrying value. Based upon 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, 2011.

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 we have the intent to sell the security and it is more-likely-than-not we will have to sell the security before recovery of its cost basis.

Note 5: Loans

Geographic distributions of loans were as follows:

	September 30, 2011			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 360,822	$ 11,310	$ 21,413	$ 393,545
Commercial real estate	791,403	139,511	41,598	972,512
Real estate construction	90,501	16,107	23,338	129,946
Retail real estate	442,376	124,645	9,924	576,945
Retail other	25,574	648	144	26,366
Total	$ 1,710,676	$ 292,221	$ 96,417	$ 2,099,314
Less held for sale(1)				36,199
				$ 2,063,115
Less allowance for loan losses				63,915
Net loans				$ 1,999,200

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

	December 31, 2010			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 395,629	$ 17,523	$ 26,241	$ 439,393
Commercial real estate	887,601	140,734	44,482	1,072,817
Real estate construction	108,050	20,104	26,257	154,411
Retail real estate	501,871	141,914	13,311	657,096
Retail other	43,944	958	158	45,060
Total	$ 1,937,095	$ 321,233	$ 110,449	$ 2,368,777
Less held for sale(1)				49,684
				$ 2,319,093
Less allowance for loan losses				76,038
Net loans				$ 2,243,055

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

Net deferred loan origination costs included in the tables above were $0.7 million and $0.8 million as of September 30, 2011 and December 31, 2010, respectively.

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company s obligations to its stockholders, depositors, and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures in place designed to focus our lending efforts on the types, locations and duration of loans most appropriate for our 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 our lending offices. We make attempts to utilize government assisted lending programs, such as the Small Business Administration and United States Department of Agriculture lending programs, where prudent. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid 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 our allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Our 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 minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in our 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, which include direct and indirect debt, are generally limited to $20 million, which is significantly less than our regulatory lending limit. Borrowing relationships exceeding $20 million are reviewed by our board of directors at least annually and more frequently by management. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company s various directorates, are reviewed for compliance with regulatory guidelines and by our board of directors at least annually.

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

The Company s lending can be summarized into five primary areas; commercial loans, commercial real estate loans, real estate construction, 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, 2010. The significant majority of the lending activity occurs in the Company s Illinois and Indiana markets, with the remainder in the Florida market. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

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

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

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

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

- *Grade 9-* This grade includes Substandard loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Assets so classified must have well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank 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 inception of the loan. All commercial and commercial real estate loans above $0.5 million with a grading of seven are reviewed annually and grade changes are made as necessary. All real estate construction loans above $0.5 million, regardless of the grade, are reviewed annually and grade changes are made as necessary. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review. All loans graded eight above $0.5 million are reviewed quarterly. Further, all loans graded nine or below are reviewed at least quarterly.

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

September 30, 2011	Weighted Avg. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10
		(dollars in thousands)				
Illinois/Indiana						
Commercial	5.30	$ 274,911	$ 46,435	$ 33,055	$ 19,843	$ 7,991
Commercial real estate	5.92	575,078	108,446	67,795	70,612	11,070
Real estate construction	7.45	30,216	14,935	47,059	17,984	3,645
Retail real estate	3.72	384,708	9,730	3,792	4,323	6,017
Retail other	2.76	24,206	849	639		24
Total Illinois/Indiana		$ 1,289,119	$ 180,395	$ 152,340	$ 112,762	$ 28,747
Florida						
Commercial	6.29	$ 5,751	$ 4,167	$ 390	$ 303	$ 699
Commercial real estate	6.58	74,133	12,827	26,914	19,005	6,632
Real estate construction	8.00	1,056	509	12,519	850	1,173
Retail real estate	4.20	89,464	3,492	22,176	3,355	4,736
Retail other	2.47	646	2			
Total Florida		$ 171,050	$ 20,997	$ 61,999	$ 23,513	$ 13,240
Total		$ 1,460,169	$ 201,392	$ 214,339	$ 136,275	$ 41,987

December 31, 2010	Weighted Avg. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10
		(dollars in thousands)				
Illinois/Indiana						
Commercial	5.20	$ 292,027	$ 52,761	$ 26,526	$ 34,233	$ 16,323
Commercial real estate	5.86	660,520	109,553	76,311	72,831	12,868
Real estate construction	7.41	33,489	24,582	49,353	20,026	6,857
Retail real estate	3.72	433,371	12,288	6,781	3,860	5,615
Retail other	4.00	35,989	2,720	4,740	653	
Total Illinois/Indiana		$ 1,455,396	$ 201,904	$ 163,711	$ 131,603	$ 41,663
Florida						
Commercial	6.45	$ 12,777	$ 257	$ 913	$ 302	$ 3,274
Commercial real estate	6.65	69,758	10,270	34,881	14,905	10,920
Real estate construction	8.22	525	927	12,874	3,321	2,457
Retail real estate	4.21	106,974	3,840	21,985	932	7,162
Retail other	3.42	805	16	127		10
Total Florida		$ 190,839	$ 15,310	$ 70,780	$ 19,460	$ 23,823
Total		$ 1,646,235	$ 217,214	$ 234,491	$ 151,063	$ 65,486

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, 2011			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 491	$ 184	$ 90	$ 7,991
Commercial real estate	1,108	878	706	11,070
Real estate construction				3,645
Retail real estate	3,635	629	190	6,017
Retail other	43	1		24
Total Illinois/Indiana	$ 5,277	$ 1,692	$ 986	$ 28,747
Florida				
Commercial	$	$	$	$ 699
Commercial real estate				6,632
Real estate construction	119			1,173
Retail real estate	1,159			4,736
Retail other				
Total Florida	$ 1,278	$	$	$ 13,240
Total	$ 6,555	$ 1,692	$ 986	$ 41,987

	December 31, 2010			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 1,613	$ 803	$	$ 16,323
Commercial real estate	713	273	458	12,868
Real estate construction		620		6,857
Retail real estate	8,698	2,978	2,130	5,615
Retail other	2,226	653	30	
Total Illinois/Indiana	$ 13,250	$ 5,327	$ 2,618	$ 41,663
Florida				
Commercial	$	$	$	$ 3,274
Commercial real estate	704	337		10,920
Real estate construction	175			2,457
Retail real estate	3,547	109		7,162
Retail other	28			10
Total Florida	$ 4,454	$ 446	$	$ 23,823
Total	$ 17,704	$ 5,773	$ 2,618	$ 65,486

The gross interest income that would have been recorded in the three and nine months ended September 30, 2011 if impaired loans had been current in accordance with their original terms was $2.1 million and $4.4 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, 2011.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled payments of 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 loans 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. A loan is assessed for impairment by the Company if one of the following criteria is met: loans 60 days or more past due and over $0.25 million, loans graded eight over $0.5 million or loans graded nine or below.

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

Our 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 our 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.

We consider the customer s past performance, previous and current credit history, the individual circumstances surrounding the current difficulties and their 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, or short-term principal and interest payment relief. 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 above. A summary of restructured loans as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Restructured loans:		
In compliance with modified terms	$ 26,542	$ 26,765
30 89 days past due	1,542	1,468
Included in non-performing loans	11,744	10,320
Total	$ 39,828	$ 38,553

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 we modify loans in a TDR, we evaluate 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 we determine 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.

Performing loans classified as TDRs during the three and nine months ended September 30, 2011, segregated by class, are shown below:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
	(dollars in thousands)			
Commercial	1	$ 298	1	$ 298
Commercial real estate	6	3,533	7	8,970
Real estate construction				
Retail real estate	2	213	5	714
Retail other				
Total	9	$ 4,044	13	$ 9,982

The commercial TDR for the three and nine months ended September 30, 2011 was a short-term principal payment relief. The commercial real estate TDRs for the three months ended September 30, 2011 consisted of two modifications for short-term interest-rate relief totaling $1.9 million and four modifications for short-term principal payment relief totaling $1.6 million. The commercial real estate TDRs for the nine months ended September 30, 2011 consisted of three modifications for short-term interest-rate relief totaling $7.3 million and four modifications for short-term principal payment relief totaling $1.6 million. All TDRs in retail real estate were short-term interest-rate relief.

The gross interest income that would have been recorded in the three and nine months ended September 30, 2011 if performing TDRs had been in accordance with their original terms instead of modified terms was insignificant.

TDR loans 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, 2011, segregated by class, are shown below:

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number of contracts		Recorded investment	Number of contracts		Recorded investment
	(dollars in thousands)					
Commercial		$			$	
Commercial real estate	2		2,575	3		5,511
Real estate construction				1		270
Retail real estate	2		474	4		2,111
Retail other						
Total	4	$	3,049	8	$	7,892

The following tables provide details of impaired loans, segregated by category, as of September 30, 2011 and December 31, 2010. The unpaid contractual principal balance represents the recorded balance prior to any partial charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan. The average recorded investment is calculated using the most recent four quarters.

	September 30, 2011											
		Unpaid Contractual Principal Balance		Recorded Investment with No Allowance		Recorded Investment with Allowance		Total Recorded Investment		Related Allowance		Average Recorded Investment
Commercial	$	16,092	$	6,917	$	2,374	$	9,291	$	330	$	15,119
Commercial real estate		43,296		21,722		10,706		32,428		4,218		34,681
Real estate construction		12,662		9,440				9,440				16,711
Retail real estate		32,273		25,137				25,137				32,050
Retail other		32		25				25				31
Total	$	104,355	$	63,241	$	13,080	$	76,321	$	4,548	$	98,592

	December 31, 2010					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 29,387	$ 13,103	$ 6,751	$ 19,854	$ 3,125	$ 15,155
Commercial real estate	44,538	29,358	7,407	36,765	3,464	40,120
Real estate construction	20,564	14,635	989	15,624	404	34,829
Retail real estate	46,443	28,967	7,801	36,768	3,806	38,773
Retail other	43	41		41		91
Total	$ 140,975	$ 86,104	$ 22,948	$ 109,052	$ 10,799	$ 128,968

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 our loan portfolio at the balance sheet date. 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, we believe the allowance methodology is consistent with prior periods and the balance is adequate to cover the estimated losses in our loan portfolio at September 30, 2011 and December 31, 2010.

The allowance for loan losses is evaluated geographically, by class of loans. The significant majority of the lending activity occurs in the Company s Illinois markets, with the remaining in the Florida and Indiana markets. 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 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 calculated using a sum-of-years digits weighted 20 quarter historical average, where the most recent four quarters are the most heavily weighted.

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 3.25% and 3% as of September 30, 2011 and December 31, 2010, respectively, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs.

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, we add the additional amount to the allocation. The minimum additional amount for grade 8 loans is 1.25% based upon a review of the differences between the rolling 12 and 20 quarter historical loss averages by region.

The specific portion of the Company s allowance relates to loans that are impaired, which includes non-performing loans, troubled debt restructurings 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. Due to the significant and rapid decline in real estate valuations in southwest Florida in recent years, valuations of collateral in this market are largely based upon current market conditions and unobservable inputs, which typically indicate a value less than appraised value.

The historical general quantitative allocation 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 2011, we slightly adjusted the Florida qualitative factors relating to Valuation of Underlying Collateral, Impact of Competition, Legal & Regulatory issues and Nature and Volume of Loan Portfolio downward, as we have seen signs of stabilization. If trends continue to show positive signs, we ultimately hope to further reduce the Florida factors to be comparable to Illinois/Indiana. The adjustment of the Florida qualitative factors decreased our allowance requirements by $0.3 million at September 30, 2011 compared to the method used for June 30, 2011.

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, 2011						
	Commercial	**Commercial Real Estate**	**Real Estate Construction**	**Retail Real Estate**	**Retail Other**	**Unallocated**	**Total**
Beginning balance	$ 11,794	$ 30,134	$ 10,016	$ 14,488	$ 2,897	$	$ 69,329
Provision for loan loss	199	5,702	(71)	1,258	(2,088)		5,000
Charged-off	1,760	5,022	1,789	3,283	203		12,057
Recoveries	27	283	6	1,219	108		1,643
Ending Balance	$ 10,260	$ 31,097	$ 8,162	$ 13,682	$ 714	$	$ 63,915

	As of and for the three months ended September 30, 2010						
	Commercial	**Commercial Real Estate**	**Real Estate Construction**	**Retail Real Estate**	**Retail Other**	**Unallocated**	**Total**
Beginning balance	$ 17,355	$ 32,566	$ 24,818	$ 11,759	$ 5,631	$	$ 92,129
Provision for loan loss	229	5,555	(1,653)	9,000	(3,631)		9,500
Charged-off	2,867	5,466	6,931	4,042	79		19,385
Recoveries	80	563	59	96	56		854
Ending Balance	$ 14,797	$ 33,218	$ 16,293	$ 16,813	$ 1,977	$	$ 83,098

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	As of and for the nine months ended September 30, 2011						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Unallocated	Total
Beginning balance	$ 13,840	$ 32,795	$ 11,903	$ 14,947	$ 2,553	$	$ 76,038
Provision for loan loss	4,292	8,260	(731)	5,852	(2,673)		15,000
Charged-off	9,380	10,445	4,105	9,312	502		33,744
Recoveries	1,508	487	1,095	2,195	1,336		6,621
Ending Balance	$ 10,260	$ 31,097	$ 8,162	$ 13,682	$ 714	$	$ 63,915
Amount allocated to:							
Loans individually evaluated for impairment	$ 330	$ 4,218	$	$	$	$	$ 4,548
Loans collectively evaluated for impairment	$ 9,930	$ 26,879	$ 8,162	$ 13,682	$ 714	$	$ 59,367
Ending Balance	$ 10,260	$ 31,097	$ 8,162	$ 13,682	$ 714	$	$ 63,915
Loans:							
Loans individually evaluated for impairment	$ 9,291	$ 32,428	$ 9,440	$ 25,137	$ 25	$	$ 76,321
Loans collectively evaluated for impairment	$ 384,254	$ 940,084	$ 120,506	$ 515,609	$ 26,341	$	$ 1,986,794
Ending Balance	$ 393,545	$ 972,512	$ 129,946	$ 540,746	$ 26,366	$	$ 2,063,115

	As of and for the nine months ended September 30, 2010						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Unallocated	Total
Beginning balance	$ 9,824	$ 38,249	$ 37,490	$ 12,753	$ 1,440	$ 423	$ 100,179
Provision for loan loss	11,081	10,554	(5,126)	13,400	1,791		31,700
Charged-off	6,231	18,428	24,321	11,451	1,476	423	62,330
Recoveries	123	2,843	8,250	2,111	222		13,549
Ending Balance	$ 14,797	$ 33,218	$ 16,293	$ 16,813	$ 1,977	$	$ 83,098
Amount allocated to:							
Loans individually evaluated for impairment	$ 3,197	$ 1,949	$ 298	$ 3,554	$	$	$ 8,998
Loans collectively evaluated for impairment	$ 11,600	$ 31,269	$ 15,995	$ 13,259	$ 1,977	$	$ 74,100
Ending Balance	$ 14,797	$ 33,218	$ 16,293	$ 16,813	$ 1,977	$	$ 83,098
Loans:							
Loans individually evaluated for impairment	$ 22,357	$ 36,181	$ 29,320	$ 39,929	$ 104	$	$ 127,891

Loans collectively evaluated for impairment	$	421,079	$	1,102,321	$	152,447	$	596,025	$	66,897	$		$	2,338,769
Ending Balance	$	443,436	$	1,138,502	$	181,767	$	635,954	$	67,001	$		$	2,466,660

Note 6: 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, 2011	December 31, 2010
	(dollars in thousands)	
Balance	$ 129,905	$ 138,982
Weighted average interest rate at end of period	0.23%	0.32%
Maximum outstanding at any month end	$ 142,557	$ 141,276
Average daily balance	$ 130,062	$ 134,207
Weighted average interest rate during period (1)	0.31%	0.41%

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

Note 7: Earnings Per Common Share

Net income per common share has been computed as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in thousands, except per share data)			
Net income available to common stockholders	$ 6,521	$ 4,739	$ 20,019	$ 12,076
Shares:				
Weighted average common shares outstanding	86,597	66,361	84,867	66,361
Dilutive effect of outstanding options and warrants as determined by the application of the treasury stock method	11		13	
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	86,608	66,361	84,880	66,361
Basic earnings per common share	$ 0.08	$ 0.07	$ 0.24	$ 0.18
Diluted earnings per common share	$ 0.08	$ 0.07	$ 0.24	$ 0.18

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

Diluted earnings per share are determined by dividing net income available to common stockholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options and vesting of restricted stock units and use of proceeds to purchase treasury stock at the average market price for the period. If the average market price for the period is less than the strike price of a stock option or grant price of a restricted stock unit, that option/restricted stock unit is considered anti-dilutive and is excluded from the calculation of common stock equivalents. At September 30, 2011, 1,101,672 outstanding options, 573,833 warrants, and 254,090 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 8: Stock-based Compensation

Under the terms of the Company s equity compensation plans, the Company is allowed, but not required, to source stock option exercises from its inventory of treasury stock. As of September 30, 2011, under the Company s stock repurchase plan, 895,655 additional shares were authorized for repurchase. The repurchase plan has no expiration date and expires when the Company has repurchased all of the remaining authorized shares. Due to First Busey s participation in the TARP CPP through August 25, 2011, it was not permitted to repurchase any shares of its common stock, other than in connection with benefit plans consistent with past practice. However, as described under Note 3 Capital, as of August 25, 2011, the Company is no longer a participant in the TARP CPP, and therefore is no longer subject to these stock repurchase restrictions.

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, 2010. The Company s equity incentive plans are designed to encourage ownership of our common stock by our employees and directors, to provide additional incentive for them to promote the success of our business, and to attract and retain talented personnel. All of our employees and directors, and those of our subsidiaries, are eligible to receive awards under the plans.

A summary of the status of and changes in the Company s stock option plans for the nine months ended September 30, 2011 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	1,351,593	$ 16.09	
Granted			
Exercised			
Forfeited	189,921	13.57	
Outstanding at end of period	1,161,672	$ 16.72	2.92
Exercisable at end of period	1,161,672	$ 16.72	2.92

The Company recognized an insignificant amount of compensation expense related to stock options for the nine months ended September 30, 2011.

A summary of the changes in the Company s non-vested stock awards (restricted stock units) for the nine months ended September 30, 2011, is as follows:

	Shares		Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	194,914	$	4.75
Granted	273,154		5.17
Dividend Equivalents Earned	6,446		5.17
Forfeited			
Outstanding at end of period	474,515	$	4.99

On September 21, 2011, under the terms of the 2010 Equity Incentive Plan, the Company granted 28,846 restricted stock units (RSUs) to a member of management. As the stock price on the grant date of September 21, 2011 was $4.16, total compensation cost to be recognized is $120,000. This cost will be recognized over a period of one to three years. Per the agreement, 9,615 units vest over a requisite service period of one year, 9,615 units vest over a requisite service period of two years, and the remaining 9,616 units vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

On July 26, 2011, under the terms of the 2010 Equity Incentive Plan, the Company granted 4,826 RSUs to the Chairman of the Board. As the stock price on the grant date of July 26, 2011 was $5.18, total compensation cost to be recognized is $25,000. This cost will be recognized over the requisite service period of one year following which the awards will vest 100%.

On July 13, 2011, under the terms of the 2010 Equity Incentive Plan, the Company granted 155,719 RSUs to certain members of management. As the stock price on the grant date of July 13, 2011 was $5.29, total compensation cost to be recognized is $823,750. This cost will be recognized over the requisite service period of five years following which the awards will vest 100%.

Also on July 13, 2011, under the terms of the 2010 Equity Incentive Plan, the Company granted 66,163 RSUs to certain members of management. As the stock price on the grant date of July 13, 2011 was $5.29, total compensation cost to be recognized is $350,000. This cost will be recognized over the requisite service period of two years following which the awards will vest 100%.

On June 21, 2011, under the terms of the 2010 Equity Incentive Plan, the Company granted 17,600 RSUs to directors. As the stock price on the grant date of June 21, 2011 was $5.25, total compensation cost to be recognized is $92,400. This cost will be recognized over the requisite service period of one year following which the awards will vest 100%.

On July 12, 2010, under the terms of the 2010 Equity Incentive Plan, the Company granted 191,579 RSUs to certain members of management. As the stock price on the grant date of July 12, 2010 was $4.75, total compensation cost to be recognized is $910,000. This cost will be recognized over the requisite service period of five years following which the awards will vest 100%.

In addition, all recipients earn quarterly dividends on their respective shares. These dividends will not be paid out during the vesting period, but instead will be used to purchase additional shares. Therefore, dividends earned each quarter will compound based upon the updated share balances. Dividends earned are reinvested at the market price of our stock on the dividend payment date. Upon vesting, shares are expected to be issued from treasury.

The Company recognized $0.3 million of compensation expense related to non-vested RSUs for the nine months ended September 30, 2011. As of September 30, 2011, there was $2.0 million of total unrecognized compensation cost related to these non-vested RSUs.

Note 9: Income Taxes

At September 30, 2011, the Company was under examination by the Internal Revenue Service for tax years 2009 and 2010.

Note 10: Outstanding Commitments and Contingent Liabilities

Legal Matters

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

Credit Commitments and Contingencies

The Company and its subsidiary are parties to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of 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 and its subsidiary s exposure to credit loss are represented by the contractual amount of those commitments. The Company and its subsidiary use the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the contractual amount of the Company s exposure to off-balance-sheet risk follows:

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 506,571	$ 498,143
Standby letters of credit	16,502	15,538