FIRST BUSEY CORP /NV/
Form 10-Q
November 08, 2012

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 9/30/2012

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 8, 2012**
Common Stock, $.001 par value	86,644,425

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

September 30, 2012 and December 31, 2011

(Unaudited)

		September 30, 2012		December 31, 2011
		(dollars in thousands)		
Assets				
Cash and due from banks (interest-bearing 2012 $243,561; 2011 $219,879)	$	328,308	$	315,053
Securities available for sale		964,187		831,749
Loans held for sale		24,415		15,249
Loans (net of allowance for loan losses 2012 $49,213; 2011 $58,506)		1,961,691		1,977,589
Premises and equipment		72,214		69,398
Goodwill		20,686		20,686
Other intangible assets		13,537		16,018
Cash surrender value of bank owned life insurance		39,281		37,882
Other real estate owned (OREO)		8,486		8,452
Deferred tax asset, net		38,981		48,236
Other assets		57,878		61,810
Total assets	$	3,529,664	$	3,402,122
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Non-interest-bearing	$	510,146	$	503,118
Interest-bearing		2,382,378		2,260,336
Total deposits	$	2,892,524	$	2,763,454
Securities sold under agreements to repurchase		131,753		127,867
Long-term debt		7,417		19,417
Junior subordinated debt owed to unconsolidated trusts		55,000		55,000
Other liabilities		25,649		27,117
Total liabilities	$	3,112,343	$	2,992,855
Stockholders Equity				
Series C Preferred stock, $.001 par value, 72,664 shares authorized, issued and outstanding, $1,000.00 liquidation value per share	$	72,664	$	72,664
Common stock, $.001 par value, authorized 200,000,000 shares; shares issued 88,287,132		88		88
Additional paid-in capital		594,470		594,009
Accumulated deficit		(233,838)		(238,085)
Accumulated other comprehensive income		16,053		13,124
Total stockholders equity before treasury stock and unearned ESOP shares	$	449,437	$	441,800
Common stock shares held in treasury at cost 2012 1,622,707; 2011 1,646,726		(31,699)		(32,116)
Unearned ESOP shares 20,000 shares		(417)		(417)
Total stockholders equity	$	417,321	$	409,267
Total liabilities and stockholders equity	$	3,529,664	$	3,402,122
Common shares outstanding at period end		86,644,425		86,620,406

See accompanying notes to unaudited consolidated financial statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

		2012		2011
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	74,450	$	87,924
Interest and dividends on investment securities:				
Taxable interest income		11,209		11,557
Non-taxable interest income		2,667		2,099
Dividends		6		10
Total interest income	$	88,332	$	101,590
Interest expense:				
Deposits	$	10,026	$	14,536
Securities sold under agreements to repurchase		217		298
Short-term borrowings		26		29
Long-term debt		552		1,212
Junior subordinated debt owed to unconsolidated trusts		994		1,600
Total interest expense	$	11,815	$	17,675
Net interest income	$	76,517	$	83,915
Provision for loan losses		13,000		15,000
Net interest income after provision for loan losses	$	63,517	$	68,915
Other income:				
Trust fees	$	13,245	$	11,765
Commissions and brokers fees, net		1,578		1,415
Remittance processing		6,346		7,119
Service charges on deposit accounts		8,646		9,513
Other service charges and fees		4,246		3,963
Gain on sales of loans		8,924		7,444
Security gains (losses), net		575		(2)
Other		5,679		2,786
Total other income	$	49,239	$	44,003
Other expense:				
Salaries and wages	$	38,966	$	30,678
Employee benefits		8,791		7,759
Net occupancy expense of premises		6,598		6,762
Furniture and equipment expense		3,858		3,958
Data processing		8,366		6,425
Amortization of intangible assets		2,481		2,653
Regulatory expense		1,869		3,652
OREO expense		788		459
Other		15,658		14,228
Total other expense	$	87,375	$	76,574
Income before income taxes	$	25,381	$	36,344
Income taxes		7,941		12,217
Net income	$	17,440	$	24,127
Preferred stock dividends and discount accretion		2,725		4,108
Net income available to common stockholders	$	14,715	$	20,019
Basic earnings per common share	$	0.17	$	0.24
Diluted earnings per common share	$	0.17	$	0.24
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, 2012 and 2011

(Unaudited)

		2012		2011
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	24,412	$	28,243
Interest and dividends on investment securities:				
Taxable interest income		3,604		3,845
Non-taxable interest income		989		717
Dividends		6		6
Total interest income	$	29,011	$	32,811
Interest expense:				
Deposits	$	2,960	$	4,457
Securities sold under agreements to repurchase		63		87
Short-term borrowings		8		9
Long-term debt		106		230
Junior subordinated debt owed to unconsolidated trusts		329		301
Total interest expense	$	3,466	$	5,084
Net interest income	$	25,545	$	27,727
Provision for loan losses		3,500		5,000
Net interest income after provision for loan losses	$	22,045	$	22,727
Other income:				
Trust fees	$	3,960	$	3,460
Commissions and brokers fees, net		508		495
Remittance processing		2,068		2,335
Service charges on deposit accounts		2,962		3,283
Other service charges and fees		1,422		1,341
Gain on sales of loans		3,255		2,977
Security gains, net		511		
Other		903		827
Total other income	$	15,589	$	14,718
Other expense:				
Salaries and wages	$	13,707	$	11,090
Employee benefits		2,773		2,494
Net occupancy expense of premises		2,237		2,211
Furniture and equipment expense		1,276		1,294
Data processing		3,568		2,145
Amortization of intangible assets		827		885
Regulatory expense		623		497
OREO expense		273		112
Other		5,110		4,996
Total other expense	$	30,394	$	25,724
Income before income taxes	$	7,240	$	11,721
Income taxes		2,331		4,151
Net income	$	4,909	$	7,570
Preferred stock dividends and discount accretion		909		1,049
Net income available to common stockholders	$	4,000	$	6,521
Basic earnings per common share	$	0.05	$	0.08
Diluted earnings per common share	$	0.05	$	0.08
Dividends declared per share of common stock	$	0.04	$	0.04

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2012 and 2011

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(dollars in thousands)			
Net income	$ 4,909	$ 7,570	$ 17,440	$ 24,127
Other comprehensive income, before tax:				
Unrealized net gains (losses) on securities:				
Unrealized net holding gains arising during period	$ 3,285	$ 2,980	$ 5,554	$ 7,097
Reclassification adjustment for (gains) losses included in net income	(511)		(575)	2
Other comprehensive income, before tax	$ 2,774	$ 2,980	$ 4,979	$ 7,099
Income tax expense related to items of other comprehensive income	1,142	1,227	2,050	3,137
Other comprehensive income, net of tax	$ 1,632	$ 1,753	$ 2,929	$ 3,962
Comprehensive income	$ 6,541	$ 9,323	$ 20,369	$ 28,089

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, 2012 and 2011

(Unaudited)

	2012	2011
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 17,440	$ 24,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	722	309
Depreciation and amortization	6,507	6,814
Provision for loan losses	13,000	15,000
Provision for deferred income taxes	7,205	10,915
Amortization of security premiums and discounts, net	7,166	4,606
Net security (gains) losses	(575)	2
Gain on sales of loans, net	(8,924)	(7,444)
Net (gain) on sales of OREO properties	(248)	(101)
Increase in cash surrender value of bank owned life insurance	(1,399)	(167)
Change in assets and liabilities:		
Decrease in other assets	2,830	4,069
Decrease in other liabilities	(796)	(4,868)
Decrease in interest payable	(592)	(1,507)
Decrease (increase) in income taxes receivable	1,105	(328)
Net cash provided by operating activities before loan originations and sales	$ 43,441	$ 51,427
Loans originated for sale	(419,249)	(324,090)
Proceeds from sales of loans	419,007	345,019
Net cash provided by operating activities	$ 43,199	$ 72,356
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	55,599	10,675
Proceeds from maturities of securities classified available for sale	140,785	85,337
Purchase of securities classified available for sale	(330,434)	(289,465)
Net (increase) decrease in loans	(6,117)	219,976
Proceeds from disposition of premises and equipment	77	946
Proceeds from sale of OREO properties	9,229	6,563
Purchases of premises and equipment	(6,919)	(2,068)
Net cash (used in) provided by investing activities	$ (137,780)	$ 31,964

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Nine Months Ended September 30, 2012 and 2011

(Unaudited)

	2012	2011
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	$ (87,513)	$ (182,559)
Net increase in demand, money market and savings deposits	216,583	22,654
Cash dividends paid	(13,120)	(14,498)
Net increase (decrease) in securities sold under agreements to repurchase	3,886	(9,077)
Principal payments on long-term debt	(12,000)	(23,325)
Repurchase of Series T Preferred Stock		(100,000)
Proceeds from issuance of Series C Preferred Stock		72,664
Net cash provided by (used in) financing activities	$ 107,836	$ (234,141)
Net increase (decrease) in cash and due from banks	$ 13,255	$ (129,821)
Cash and due from banks, beginning	$ 315,053	$ 418,965
Cash and due from banks, ending	$ 328,308	$ 289,144

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:		
Interest	$ 12,408	$ 19,183
Income taxes	$ 630	$ 2,756
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	$ 9,015	$ 8,879
Dividends accrued	$ 924	$ 378
Conversion of Series B Preferred stock to Common stock	$	$ 31,862

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for Quarterly Reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

The accompanying consolidated balance sheet as of December 31, 2011, 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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2012 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 210, Disclosures about Offsetting Assets and Liabilities. New authoritative accounting guidance (Accounting Standards Update No. 2011-11) under ASC Topic 210 requires enhanced disclosure about offsetting and related arrangements to enable users of an issuer s financial statements to understand the effect of those arrangements on its financial position. This update will be effective for the annual periods beginning after January 1, 2013, and is not expected to have a significant impact on the Company s financial statements.

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 became effective for annual periods beginning after December 15, 2011, and resulted in a change to the presentation of comprehensive income in 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 became effective for annual periods beginning after December 15, 2011 and new disclosures are included in this Quarterly Report.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
September 30, 2012:				
U.S. Treasury securities	$ 52,056	$ 1,314	$	$ 53,370
Obligations of U.S. government corporations and agencies	364,484	7,450		371,934
Obligations of states and political subdivisions	258,443	7,087	(76)	265,454
Residential mortgage-backed securities	251,180	10,027		261,207
Corporate debt securities	7,655	133	(1)	7,787
	933,818	26,011	(77)	959,752
Mutual funds and other equity securities	3,079	1,356		4,435
	$ 936,897	$ 27,367	$ (77)	$ 964,187

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
December 31, 2011:				
U.S. Treasury securities	$ 45,550	$ 485	$	$ 46,035
Obligations of U.S. government corporations and agencies	339,983	9,083	(35)	349,031
Obligations of states and political subdivisions	149,368	5,193	(124)	154,437
Residential mortgage-backed securities	271,787	6,374	(46)	278,115
Corporate debt securities	2,532	73	(22)	2,583
	809,220	21,208	(227)	830,201
Mutual funds and other equity securities	219	1,329		1,548
	$ 809,439	$ 22,537	$ (227)	$ 831,749

The amortized cost and fair value of debt securities available for sale as of September 30, 2012, 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	$ 127,700	$ 129,004
Due after one year through five years	483,166	493,485
Due after five years through ten years	238,636	247,945
Due after ten years	84,316	89,318

	$	933,818	$	959,752

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

	Three Months Ended September 30, 2012	2011
	(dollars in thousands)	
Gross security gains	$ 511	$
Gross security (losses)		
Net security (losses) gains	$ 511	$

	Nine Months Ended September 30, 2012	2011
	(dollars in thousands)	
Gross security gains	$ 576	$
Gross security (losses)	(1)	(2)
Net security (losses) gains	$ 575	$ (2)

The tax provision for these net realized gains and losses was $0.2 million for the three and nine months ended September 30, 2012 and insignificant for the three and nine months ended September 30, 2011.

Investment securities with carrying amounts of $483.6 million and $359.9 million on September 30, 2012 and December 31, 2011, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at September 30, 2012 and December 31, 2011 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
September 30, 2012:						
U.S. Treasury securities(1)	$ 51	$	$	$	$ 51	$
Obligations of states and political subdivisions	15,117	76			15,117	76
Corporate debt securities	2,866	1			2,866	1
Total temporarily impaired securities	$ 18,034	$ 77	$	$	$ 18,034	$ 77

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

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			

December 31, 2011:												
Obligations of U.S. government corporations and agencies	$	15,615	$	35	$		$		$	15,615	$	35
Obligations of states and political subdivisions		21,037		124						21,037		124
Residential mortgage-backed securities		16,428		46						16,428		46
Corporate debt securities		455		22						455		22
Total temporarily impaired securities	$	53,535	$	227	$		$		$	53,535	$	227

The total number of securities in the investment portfolio in an unrealized loss position as of September 30, 2012 was 40, and represented a loss of 0.43% 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, 2012.

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 we will have to sell the security before recovery of its cost basis.

Note 4: Loans

Geographic distributions of loans were as follows:

	September 30, 2012			
	Illinois	**Florida**	**Indiana**	**Total**
	(dollars in thousands)			
Commercial	$ 365,737	$ 13,639	$ 20,368	$ 399,744
Commercial real estate	770,882	137,822	56,660	965,364
Real estate construction	69,383	14,713	24,246	108,342
Retail real estate	425,641	112,407	10,843	548,891
Retail other	12,477	383	118	12,978
Total	$ 1,644,120	$ 278,964	$ 112,235	$ 2,035,319
Less held for sale(1)				24,415
				$ 2,010,904
Less allowance for loan losses				49,213
Net loans				$ 1,961,691

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

	December 31, 2011			
	Illinois	**Florida**	**Indiana**	**Total**
	(dollars in thousands)			
Commercial	$ 375,238	$ 10,830	$ 21,787	$ 407,855
Commercial real estate	793,769	135,360	51,087	980,216
Real estate construction	72,569	16,186	16,110	104,865
Retail real estate	410,844	120,190	9,112	540,146
Retail other	17,547	581	134	18,262
Total	$ 1,669,967	$ 283,147	$ 98,230	$ 2,051,344

Less held for sale(1)		15,249
	$	2,036,095
Less allowance for loan losses		58,506
Net loans	$	1,977,589

(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 as of both September 30, 2012 and December 31, 2011.

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, 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 primarily from cash flows of the borrowers, or from proceeds from the sale of selected assets of the borrowers.

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

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

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

The Company s lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction, 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, 2011. The significant majority of the lending activity occurs in the Company s Illinois and Indiana markets, with the remainder in the Florida market. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

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

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

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

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

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

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

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

Loans in the highest grades, represented by grades 1, 3, 6 and 7, totaled $1.8 billion at September 30, 2012 and grew by $67.0 million from $1.7 billion at December 31, 2011, or approximately 5% growth in aggregate on an annualized basis. Loans in the lowest grades, represented by grades 8, 9 and 10, totaled $255.9 million at September 30, 2012 and declined by $87.6 million from $343.5 million at December 31, 2011, or approximately 34% in aggregate on an annualized basis. The positive change in mix of loan grades indicates a declining level of overall risk in the total loan portfolio.

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

	September 30, 2012					
	Weighted Avg. Risk Grade	**Grades 1,3,6**	**Grade 7**	**Grade 8**	**Grade 9**	**Grade 10**
		(dollars in thousands)				
Illinois/Indiana						
Commercial	5.06	$ 288,724	$ 61,778	$ 16,409	$ 16,583	$ 2,611
Commercial real estate	5.53	627,946	98,992	59,048	34,425	7,131
Real estate construction	7.09	50,156	8,531	14,983	14,634	5,325
Retail real estate	3.65	384,541	9,214	8,074	7,096	2,251
Retail other	2.99	12,384	211			
Total Illinois/Indiana		$ 1,363,751	$ 178,726	$ 98,514	$ 72,738	$ 17,318
Florida						
Commercial	4.88	$ 8,904	$ 3,601	$ 727	$ 218	$ 189
Commercial real estate	6.38	79,849	20,143	15,131	18,245	4,454
Real estate construction	7.07	2,770	7,788	3,203	952	
Retail real estate	4.05	85,201	2,574	17,636	3,390	3,168
Retail other	2.37	383				
Total Florida		$ 177,107	$ 34,106	$ 36,697	$ 22,805	$ 7,811

Total	$ 1,540,858	$ 212,832	$ 135,211	$ 95,543	$ 25,129

	December 31, 2011					
	Weighted Avg. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10
	(dollars in thousands)					
Illinois/Indiana						
Commercial	5.12	$ 298,332	$ 43,566	$ 28,172	$ 17,884	$ 9,071
Commercial real estate	5.75	617,247	95,553	69,185	54,670	8,201
Real estate construction	7.65	22,002	7,998	34,374	18,841	5,464
Retail real estate	3.67	378,355	8,581	3,561	4,041	4,768
Retail other	3.17	16,506	676		428	71
Total Illinois/Indiana		$ 1,332,442	$ 156,374	$ 135,292	$ 95,864	$ 27,575
Florida						
Commercial	6.32	$ 5,471	$ 4,329	$ 191	$ 271	$ 568
Commercial real estate	6.44	73,021	21,296	18,677	17,124	5,242
Real estate construction	7.97	1,417	341	12,352	840	1,236
Retail real estate	4.14	89,195	2,227	20,071	4,470	3,719
Retail other	2.41	580		1		
Total Florida		$ 169,684	$ 28,193	$ 51,292	$ 22,705	$ 10,765
Total		$ 1,502,126	$ 184,567	$ 186,584	$ 118,569	$ 38,340

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

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

	September 30, 2012			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 531	$ 491	$ 59	$ 2,611
Commercial real estate	1,829	1,400		7,131
Real estate construction		490		5,325
Retail real estate	2,036	852		2,251
Retail other	27	16		
Total Illinois/Indiana	$ 4,423	$ 3,249	$ 59	$ 17,318
Florida				
Commercial	$	$	$	$ 189
Commercial real estate				4,454
Real estate construction				
Retail real estate	153	52		3,168
Retail other	18			
Total Florida	$ 171	$ 52	$	$ 7,811
Total	$ 4,594	$ 3,301	$ 59	$ 25,129

	December 31, 2011			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 131	$ 44	$ 48	$ 9,071
Commercial real estate	1,384		73	8,201
Real estate construction				5,464
Retail real estate	2,051	242	52	4,768
Retail other	23	2		71
Total Illinois/Indiana	$ 3,589	$ 288	$ 173	$ 27,575
Florida				
Commercial	$	$	$	$ 568
Commercial real estate	606			5,242
Real estate construction				1,236
Retail real estate	179			3,719
Retail other		50		
Total Florida	$ 785	$ 50	$	$ 10,765
Total	$ 4,374	$ 338	$ 173	$ 38,340

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

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

The gross interest income that would have been recorded in the three and nine months ended September 30, 2012 if impaired loans had been current in accordance with their original terms was $0.8 million and $2.9 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, 2012.

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 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, 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, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
	(dollars in thousands)	
Restructured loans:		
In compliance with modified terms	$ 19,534	$ 32,380
30 89 days past due	1,264	1,257
Included in non-performing loans	9,382	12,601
Total	$ 30,180	$ 46,238

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.

Performing loans classified as TDRs, segregated by class, are shown below:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
	(dollars in thousands)		(dollars in thousands)	
Illinois/Indiana				
Commercial		$	4	$ 1,455
Commercial real estate	1	2,069	1	2,069
Real estate construction			4	3,170
Retail real estate	1	53	11	1,875
Retail other				
Total Illinois/Indiana	2	$ 2,122	20	$ 8,569
Florida				
Commercial		$		$
Commercial real estate				
Real estate construction				
Retail real estate			2	704
Retail other				
Total Florida		$	2	$ 704
Total	2	$ 2,122	22	$ 9,273

	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)			(dollars in thousands)		
Illinois/Indiana						
Commercial	1	$	298	1	$	298
Commercial real estate	4		1,647	5		7,084
Real estate construction						
Retail real estate	1		103	1		104
Retail other						
Total Illinois/Indiana	6	$	2,048	7	$	7,486
Florida						
Commercial		$			$	
Commercial real estate	2		1,886	2		1,886
Real estate construction						
Retail real estate	1		110	4		610
Retail other						
Total Florida	3	$	1,996	6	$	2,496
Total	9	$	4,044	13	$	9,982

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

The 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, 2012 and 2011 if performing TDRs had been in accordance with their original terms instead of modified terms was insignificant.

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

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

	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)			(dollars in thousands)		
Illinois/Indiana						
Commercial		$			$	
Commercial real estate	1		75	2		3,011
Real estate construction						
Retail real estate						
Retail other						
Total Illinois/Indiana	1	$	75	2	$	3,011
Florida						
Commercial		$			$	
Commercial real estate	1		2,500	1		2,500
Real estate construction				1		270
Retail real estate	2		474	4		2,111
Retail other						
Total Florida	3	$	2,974	6	$	4,881
Total	4	$	3,049	8	$	7,892

The following tables provide details of impaired loans, segregated by category. 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, 2012					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 12,675	$ 7,690	$ 30	$ 7,720	$ 25	$ 10,270
Commercial real estate	13,743	10,419		10,419		16,745
Real estate construction	9,281	8,494		8,494		8,194
Retail real estate	6,156	4,951		4,951		5,429
Retail other						29
Total Illinois/Indiana	$ 41,855	$ 31,554	$ 30	$ 31,584	$ 25	$ 40,667
Florida						
Commercial	$ 550	$ 190	$	$ 190	$	$ 454
Commercial real estate	9,141	5,198	1,142	6,340	304	6,895
Real estate construction	2,614	2,614		2,614		4,510
Retail real estate	17,480	14,478	33	14,511	33	16,210
Retail other						
Total Florida	$ 29,785	$ 22,480	$ 1,175	$ 23,655	$ 337	$ 28,069
Total	$ 71,640	$ 54,034	$ 1,205	$ 55,239	$ 362	$ 68,736

	December 31, 2011					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 18,524	$ 11,090	$ 2,889	$ 13,979	$ 697	$ 11,495
Commercial real estate	22,408	15,270	4,134	19,404	1,421	20,059
Real estate construction	7,746	7,079		7,079		6,552
Retail real estate	7,669	5,657		5,657		6,820
Retail other	71	71		71		37
Total Illinois/Indiana	$ 56,418	$ 39,167	$ 7,023	$ 46,190	$ 2,118	$ 44,963
Florida						
Commercial	$ 1,088	$ 568	$	$ 568	$	$ 2,046
Commercial real estate	9,011	5,699	826	6,525	826	12,572
Real estate construction	7,994	5,238		5,238		6,758
Retail real estate	20,928	17,762		17,762		21,928
Retail other						4
Total Florida	$ 39,021	$ 29,267	$ 826	$ 30,093	$ 826	$ 43,308
Total	$ 95,439	$ 68,434	$ 7,849	$ 76,283	$ 2,944	$ 88,271

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.

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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 is adequate to cover the estimated losses in the Company s loan portfolio at September 30, 2012 and December 31, 2011.

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% and 3.25% as of September 30, 2012 and December 31, 2011, respectively, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. The minimum additional reserve on grade 9 loans was decreased to 3.00% from 3.25% at March 31, 2012. As of September 30, 2012, the Company believed this minimum reserve remained adequate.

Grade 8 loans have an additional allocation placed on them determined by the trend difference of the respective loan type/geography s rolling 12 and 20 quarter historical loss trends. If the rolling 12 quarter average is higher (more current information) than the rolling 20 quarter average, the Company adds the additional amount to the allocation. The minimum additional amount for grade 8 loans was 1.00% and 1.25% as of September 30, 2012 and December 31, 2011, respectively, based upon a review of the differences between the rolling 12 and 20 quarter historical loss averages by region. The Company decreased the minimum additional amount for grade 8 loans to 1.00% from 1.25% at March 31, 2012. As of September 30, 2012, the Company believed this minimum additional amount remained adequate.

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

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

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

During the third quarter of 2012, the Company did not adjust any qualitative factors. The Company bases its assessment on several sources and will continue to monitor its qualitative factors on a quarterly basis.

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

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

For the Nine Months Ended September 30, 2012 (dollars in thousands)	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Illinois/Indiana						
Beginning balance	$ 9,143	$ 18,605	$ 4,352	$ 6,473	$ 464	$ 39,037
Provision for loan loss	(281)	8,485	856	2,130	67	11,257
Charged-off	(2,880)	(12,332)	(1,280)	(2,517)	(405)	(19,414)
Recoveries	179	308	162	543	176	1,368
Ending Balance	$ 6,161	$ 15,066	$ 4,090	$ 6,629	$ 302	$ 32,248
Florida						
Beginning balance	$ 1,939	$ 8,413	$ 2,936	$ 6,160	$ 21	$ 19,469
Provision for loan loss	(522)	428	(644)	2,506	(25)	1,743
Charged-off	(90)	(1,649)	(336)	(3,247)	(1)	(5,323)
Recoveries	523	43	261	236	13	1,076
Ending Balance	$ 1,850	$ 7,235	$ 2,217	$ 5,655	$ 8	$ 16,965

For the Three Months Ended September 30, 2011 (dollars in thousands)	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Illinois/Indiana						
Beginning balance	$ 9,231	$ 17,668	$ 5,668	$ 5,307	$ 2,859	$ 40,733
Provision for loan loss	(316)	3,830	631	2,393	(2,072)	4,466
Charged-off	(868)	(2,785)	(1,328)	(928)	(203)	(6,112)
Recoveries	22	36		244	104	406
Ending Balance	$ 8,069	$ 18,749	$ 4,971	$ 7,016	$ 688	$ 39,493
Florida						
Beginning balance	$ 2,563	$ 12,466	$ 4,348	$ 9,181	$ 38	$ 28,596
Provision for loan loss	515	1,872	(702)	(1,135)	(16)	534
Charged-off	(892)	(2,237)	(461)	(2,355)		(5,945)
Recoveries	5	247	6	975	4	1,237

Ending Balance	$ 2,191	$ 12,348	$ 3,191	$ 6,666	$ 26	$ 24,422

	For the Nine Months Ended September 30, 2011					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
			(dollars in thousands)			
Illinois/Indiana						
Beginning balance	$ 11,827	$ 19,504	$ 7,186	$ 5,199	$ 2,473	$ 46,189
Provision for loan loss	191	5,974	(1,182)	3,881	(2,628)	6,236
Charged-off	(5,449)	(6,791)	(1,532)	(2,611)	(475)	(16,858)
Recoveries	1,500	62	499	547	1,318	3,926
Ending Balance	$ 8,069	$ 18,749	$ 4,971	$ 7,016	$ 688	$ 39,493
Florida						
Beginning balance	$ 2,013	$ 13,291	$ 4,717	$ 9,748	$ 80	$ 29,849
Provision for loan loss	4,101	2,286	451	1,971	(45)	8,764
Charged-off	(3,931)	(3,654)	(2,573)	(6,701)	(27)	(16,886)
Recoveries	8	425	596	1,648	18	2,695
Ending Balance	$ 2,191	$ 12,348	$ 3,191	$ 6,666	$ 26	$ 24,422

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

	As of September 30, 2012					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
			(dollars in thousands)			
Illinois/Indiana						
Amount allocated to:						
Loans individually evaluated for impairment	$ 25	$	$	$	$	$ 25
Loans collectively evaluated for impairment	6,136	15,066	4,090	6,629	302	32,223
Ending Balance	$ 6,161	$ 15,066	$ 4,090	$ 6,629	$ 302	$ 32,248
Loans:						
Loans individually evaluated for impairment	$ 7,720	$ 10,419	$ 8,494	$ 4,951	$	$ 31,584
Loans collectively evaluated for impairment	378,385	817,123	85,135	408,131	12,595	1,701,369
Ending Balance	$ 386,105	$ 827,542	$ 93,629	$ 413,082	$ 12,595	$ 1,732,953
Florida						
Amount allocated to:						
Loans individually evaluated for impairment	$	$ 304	$	$ 33	$	$ 337
Loans collectively evaluated for impairment	1,850	6,931	2,217	5,622	8	16,628
Ending Balance	$ 1,850	$ 7,235	$ 2,217	$ 5,655	$ 8	$ 16,965
Loans:						
Loans individually evaluated for impairment	$ 190	$ 6,340	$ 2,614	$ 14,511	$	$ 23,655
Loans collectively evaluated for impairment	13,449	131,482	12,099	96,883	383	254,296
Ending Balance	$ 13,639	$ 137,822	$ 14,713	$ 111,394	$ 383	$ 277,951

	As of December 31, 2011					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Amount allocated to:						
Loans individually evaluated for impairment	$ 697	$ 1,421	$	$	$	$ 2,118
Loans collectively evaluated for impairment	8,446	17,184	4,352	6,473	464	36,919
Ending Balance	$ 9,143	$ 18,605	$ 4,352	$ 6,473	$ 464	$ 39,037
Loans:						
Loans individually evaluated for impairment	$ 13,979	$ 19,404	$ 7,079	$ 5,657	$ 71	$ 46,190
Loans collectively evaluated for impairment	383,046	825,452	81,600	400,244	17,610	1,707,952
Ending Balance	$ 397,025	$ 844,856	$ 88,679	$ 405,901	$ 17,681	$ 1,754,142
Florida						
Amount allocated to:						
Loans individually evaluated for impairment	$	$ 826	$	$	$	$ 826
Loans collectively evaluated for impairment	1,939	7,587	2,936	6,160	21	18,643
Ending Balance	$ 1,939	$ 8,413	$ 2,936	$ 6,160	$ 21	$ 19,469
Loans:						
Loans individually evaluated for impairment	$ 568	$ 6,525	$ 5,238	$ 17,762	$	$ 30,093
Loans collectively evaluated for impairment	10,262	128,835	10,948	101,234	581	251,860
Ending Balance	$ 10,830	$ 135,360	$ 16,186	$ 118,996	$ 581	$ 281,953

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, 2012	December 31, 2011
	(dollars in thousands)	
Balance	$ 131,753	$ 127,867
Weighted average interest rate at end of period	0.18%	0.21%
Maximum outstanding at any month end	$ 144,709	$ 142,557
Average daily balance	$ 127,905	$ 127,095
Weighted average interest rate during period (1)	0.23%	0.29%

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

Note 6: Earnings Per Common Share

Net income per common share has been computed as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(in thousands, except per share data)			
Net income available to common stockholders				
Shares:	$ 4,000	$ 6,521	$ 14,715	$ 20,019
Weighted average common shares outstanding	86,654	86,597	86,634	84,867
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	8	11	9	13
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	86,662	86,608	86,643	84,880
Basic earnings per common share	$ 0.05	$ 0.08	$ 0.17	$ 0.24
Diluted earnings per common share	$ 0.05	$ 0.08	$ 0.17	$ 0.24

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

Diluted earnings per share are determined by dividing net income available to common stockholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options, warrants and vesting of restricted stock units and use of proceeds to purchase treasury stock at the average market price for the period. If the average market price for the period is less than the strike price of a stock option, warrant or grant price of a restricted stock unit, that option/warrant/restricted stock unit is considered anti-dilutive and is excluded from the calculation of common stock equivalents. At September 30, 2012, 804,968 outstanding options, 573,833 warrants, and 752,209 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents. 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 7: Stock-based Compensation

Under the terms of the Company s 2010 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises from its inventory of treasury stock. As of September 30, 2012, the Company held 1,622,707 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, 2011. The Company s 2010 Equity Incentive Plan is designed to encourage ownership of its common stock by its employees and directors, to provide additional incentive for them to promote the success of its business, and to attract and retain talented personnel. All of the Company s employees and directors, and those of its subsidiaries, are eligible to receive awards under the plan.

A summary of the status of and changes in the Company s stock option plans for the nine months ended September 30, 2012 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	1,017,922	$ 16.23	
Granted			
Exercised			
Forfeited	160,454	12.07	
Outstanding at end of period	857,468	$ 17.01	2.79
Exercisable at end of period	857,468	$ 17.01	2.79

The Company did not recognize any compensation expense related to stock options for the three and nine months ended September 30, 2012. The Company recognized an insignificant amount of compensation expense related to stock options for the three and nine months ended September 30, 2011.

A summary of the changes in the Company s stock unit awards for the nine months ended September 30, 2012, is as follows:

	Restricted Stock Units	Director Deferred Stock Units	Total	Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	455,352	22,771	478,123	$ 5.00
Granted	266,258	31,897	298,155	4.82
Dividend Equivalents Earned	14,211	823	15,034	4.92
Vested	(9,925)	(23,328)	(33,253)	4.92
Forfeited	(5,850)		(5,850)	5.28
Non-vested at end of period	720,046	32,163	752,209	$ 4.93
Outstanding at end of period	720,046	55,491	775,537	$ 4.94

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

On July 24, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 209,749 restricted stock units (RSUs) to certain members of management and the chairman of the board. As the stock price on the grant date of July 24, 2012 was $4.72, total compensation cost to be recognized is $990,000. This cost will be recognized over the requisite service period of five years following which the awards will vest 100%.

On June 19, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 26,600 deferred stock units (DSUs) to directors. As the stock price on the grant date of June 19, 2012 was $4.78, total compensation cost to be recognized is $127,148. This cost will be recognized over the requisite service period of one year from the date of grant or the next Annual Shareholder s meeting; whichever is earlier. Subsequent to the requisite service period, the awards will vest 100%. These deferred stock units generally are subject to the same terms as RSUs under the

Company s 2010 Equity Incentive Plan, except that, 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.

On June 19, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 2,092 RSUs to a member of management. As the stock price on the grant date of June 19, 2012 was $4.78, total compensation cost to be recognized is $10,000. This cost will be recognized over a period of one to three years. Per the agreement, 697 units vest over a requisite service period of one year, 697 units vest over a requisite service period of two years, and the remaining 698 units vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

On May 15, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 3,275 RSUs to a member of management. As the stock price on the grant date of May 15, 2012 was $4.58, total compensation cost to be recognized is $15,000. This cost will be recognized over a period of one to three years. Per the agreement, 1,092 units vest over a requisite service period of one year, 1,092 units vest over a requisite service period of two years, and the remaining 1,091 units vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

On April 24, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 3,205 RSUs to a member of management. As the stock price on the grant date of April 24, 2012 was $4.68, total compensation cost to be recognized is $15,000. This cost will be recognized over a period of one to three years. Per the agreement, 1,068 units vest over a requisite service period of one year, 1,068 units vest over a requisite service period of two years, and the remaining 1,069 units vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

On January 24, 2012, under the terms of the 2010 Equity Incentive Plan, the Company granted 53,234 RSUs to certain members of management. As the stock price on the grant date of January 24, 2012 was $5.26, total compensation cost to be recognized is $280,011. This cost will be recognized over a period of one to three years. Per the respective agreements, 17,745 RSUs vest over a requisite service period of one year, 17,745 RSUs vest over a requisite service period of two years, and the remaining 17,744 RSUs vest over a requisite service period of three years. Subsequent to each requisite service period, the awards will vest 100%.

A listing of RSUs granted in 2011 and 2010 under the terms of the 2010 Equity Incentive Plan can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

The Company recognized $0.3 million and $0.2 million of compensation expense related to non-vested stock units for the three months ended September 30, 2012 and 2011, respectively. The Company recognized $0.7 million and $0.3 million of compensation expense related to non-vested stock units for the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, there was $2.3 million of total unrecognized compensation cost related to these non-vested stock units.

Note 8: Income Taxes

At September 30, 2012, the Company was under examination by the Illinois Department of Revenue for the Company s 2009 and 2010 income tax filings.

Note 9: Outstanding Commitments and Contingent Liabilities

Legal Matters

The Company and its subsidiaries are parties to legal actions which arise in the normal course of their business activities. In the opinion of management, the ultimate resolution of these matters is not expected to have a material 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, 2012	December 31, 2011
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 551,098	$ 501,249
Standby letters of credit	15,240	13,549

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company 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, 2012 and December 31, 2011, no amounts were recorded as liabilities for the Company s potential obligations under these guarantees.

As of September 30, 2012, the Company had no futures, forwards, swaps or option contracts, or other financial instruments with similar characteristics with the exception of rate lock commitments on mortgage loans to be held for sale.

Note 10: Reportable Segments and Related Information

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

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

The segment financial information provided below has been derived from the internal accounting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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

	Goodwill		Total Assets	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
	(dollars in thousands)		(dollars in thousands)	
Goodwill & Total Assets:				
Busey Bank	$	$	$ 3,467,651	$ 3,331,869
FirsTech	8,992	8,992	26,091	25,542
Busey Wealth Management	11,694	11,694	26,143	25,867
All Other			9,779	18,844
Total	$ 20,686	$ 20,686	$ 3,529,664	$ 3,402,122

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(dollars in thousands)		(dollars in thousands)	
Interest income:				
Busey Bank	$ 28,935	$ 32,711	$ 88,093	$ 101,361
FirsTech	15	19	48	48
Busey Wealth Management	62	69	192	190
All Other	(1)	12	(1)	(9)
Total interest income	$ 29,011	$ 32,811	$ 88,332	$ 101,590
Interest expense:				
Busey Bank	$ 3,138	$ 4,783	$ 10,828	$ 16,080
FirsTech				
Busey Wealth Management				
All Other	328	301	987	1,595
Total interest expense	$ 3,466	$ 5,084	$ 11,815	$ 17,675
Other income:				
Busey Bank	$ 9,850	$ 9,270	$ 29,592	$ 27,709
FirsTech	2,094	2,356	6,418	7,189
Busey Wealth Management	4,061	3,676	12,332	11,198
All Other	(416)	(584)	897	(2,093)
Total other income	$ 15,589	$ 14,718	$ 49,239	$ 44,003
Net income:				
Busey Bank	$ 4,642	$ 7,068	$ 14,859	$ 22,984
FirsTech	237	381	746	1,253
Busey Wealth Management	780	749	2,647	2,417
All Other	(750)	(628)	(812)	(2,527)
Total net income	$ 4,909	$ 7,570	$ 17,440	$ 24,127

Note 11: Fair Value Measurements

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

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

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

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

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

There were no transfers between levels during the quarter ended September 30, 2012.

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
September 30, 2012				
Securities available for sale:				
U.S. Treasury securities	$	$ 53,370	$	$ 53,370
Obligations of U.S. government corporations and agencies		371,934		371,934
Obligations of states and political subdivisions		265,454		265,454
Residential mortgage-backed securities		261,207		261,207
Corporate debt securities	7,787			7,787
Mutual funds and other equity securities	4,435			4,435
	$ 12,222	$ 951,965	$	$ 964,187
December 31, 2011				
Securities available for sale:				
U.S. Treasury securities	$	$ 46,035	$	$ 46,035
Obligations of U.S. government corporations and agencies		349,031		349,031
Obligations of states and political subdivisions		154,437		154,437
Residential mortgage-backed securities		278,115		278,115
Corporate debt securities	2,583			2,583
Mutual funds and other equity securities	1,548			1,548
	$ 4,131	$ 827,618	$	$ 831,749

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

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

Foreclosed Assets. Non-financial assets and non-financial liabilities measured at fair value include foreclosed assets (upon initial recognition or subsequent impairment). Foreclosed assets 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 foreclosed asset 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, 2012 and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
September 30, 2012				
Impaired loans	$	$	$ 843	$ 843
Foreclosed assets			494	494
December 31, 2011				
Impaired loans	$	$	$ 4,905	$ 4,905
Foreclosed assets			794	794

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

	Quantitative Information about Level 3 Fair Value Measurements			
September 30, 2012	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range**
Impaired loans	$ 843	Appraisal of collateral	Appraisal adjustments Liquidation expenses	-7.95% to -100.0% 0% to -10.0%
Foreclosed assets	494	Appraisal of collateral	Appraisal adjustments	-44.8%

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, 2011.

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, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(dollars in thousands)			
Financial assets:				
Level 2 inputs:				
Cash and due from banks	$ 328,308	$ 328,308	$ 315,053	$ 315,053
Loans held for sale	24,415	25,051	15,249	15,569
Accrued interest receivable	13,147	13,147	11,121	11,121
Level 3 inputs:				
Loans, net	1,961,691	1,988,986	1,977,589	2,008,603
Financial liabilities:				
Level 2 inputs:				
Deposits	$ 2,892,524	$ 2,900,529	$ 2,763,454	$ 2,773,599
Securities sold under agreements to repurchase	131,753	131,753	127,867	127,867
Long-term debt	7,417	7,625	19,417	20,138
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000	55,000	55,000
Accrued interest payable	1,288	1,288	1,881	1,881

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of the financial condition of First Busey Corporation and subsidiaries (referred to herein as First Busey , Company , we , or our) at September 30, 2012 (unaudited), as compared with June 30, 2012 (unaudited) and December 31, 2011, and the results of operations for the three and nine months ended September 30, 2012 and 2011 (unaudited) and the three months ended June 30, 2012 (unaudited) when applicable. Management s discussion and analysis should be read in conjunction with First Busey 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, 2011.

EXECUTIVE SUMMARY

Operating Results

First Busey Corporation s net income for the third quarter of 2012 was $4.9 million and net income available to common shareholders was $4.0 million, or $0.05 per fully-diluted common share. These results were consistent with the second quarter of 2012 in all three measures with some modest improvements. In comparison, the Company reported net income of $7.6 million and net income available to common shareholders of $6.5 million, or $0.08 per fully-diluted common share, for the third quarter of 2011. The Company s 2012 year-to-date net income through September 30 was $17.4 million and net income available to common shareholders was $14.7 million, or $0.17 per fully diluted share. For the comparable period of 2011, net income was $24.1 million and net income available to common shareholders was $20.0 million, or $0.24 per fully diluted share. Earnings from the prior quarter were stable while changes from the prior year reflect changes we are making in our organization as we position ourselves for future balance sheet strength, consistent profitability and sustainable growth.

Our previously announced loan growth initiative drove increases in gross loan balances for the second consecutive quarter, ending the third quarter at $2.04 billion, which was $13.4 million higher than the prior quarter-end. Commercial loan portfolios grew $25.3 million in the aggregate, with $22.0 million attributable to commercial real estate and construction loans, and $3.3 million attributable to commercial & industrial loans. Growth occurred in targeted portfolios with positive changes in mix, as loans with the strongest risk grades increased, while loans with weaker grades declined during the quarter. Partially offsetting growth in commercial product lines were residential real estate loans held for sale, which declined by $10.6 million.

Our non-interest-bearing deposits of $510.1 million at September 30, 2012 grew from $503.1 million at December 31, 2011 and $467.8 million at September 30, 2011. Furthermore, our core deposits of $2.7 billion at September 30, 2012 increased from $2.5 billion for both December 31, 2011 and September 30, 2011. Non-interest-bearing deposit growth has a beneficial influence on funding costs, while increasing core deposits provide a stable platform for continued asset growth.

Net interest income slightly increased to $25.5 million in the third quarter of 2012 compared to $25.3 million for the second quarter of 2012, but decreased from $27.7 million for the third quarter of 2011. Positive inflection from the prior quarter in average loan volumes of $29.9 million and decreasing funding costs created a small improvement in both net interest income and the net interest margin. Net interest income for the first nine months of 2012 was $76.5 million compared to $83.9 million for the same period of 2011. Net interest income declines from prior year were driven by decreases in average loan volumes, which have prompted initiatives to foster quality asset growth. Additional liquidity generated by our growing deposit base has primarily been deployed into our investment portfolio over the past year.

Net interest margin modestly increased to 3.25% for the third quarter of 2012 as compared to 3.21% for the second quarter of 2012, but decreased from 3.57% for the third quarter of 2011. The net interest margin for the first nine months of 2012 decreased to 3.26% compared to 3.55% for the same period of 2011. The Company continued to experience downward pressure on its yield on interest-earning assets resulting from a protracted period of historically low rates and heightened competition for assets, which has been experienced throughout the banking industry.

Other operational highlights for the quarter include the completion of our core processing system conversion in mid-September which provides for greater customization and technological agility going forward. Costs of the system upgrade were partially mitigated through securities sales to uphold a steady operating earnings stream to shareholders during the conversion launch and transition.

While our expenses increased as we continued to shape our infrastructure to support our growth strategy, we were able to maintain stable revenue generation through diversified sources during the quarter. Total revenue, net of interest expense and security gains, for the third quarter of 2012 was $40.6 million, compared to $41.0 million for the second quarter of 2012 and $42.4 million for the third quarter of 2011.

Total revenue (net of interest expense and security gains) for the first nine months of 2012 was $125.2 million as compared to $127.9 million for the same period of 2011. Non-interest income revenue sources helped offset declines in net interest income arising from slow asset growth and continued margin pressure. Revenues from trust, brokerage and commissions, and remittance processing activities, which are primarily generated through Busey Wealth Management and FirsTech, represented 43% of non-interest income, providing a balance to traditional banking activities in a slow growth economy.

The Company recently announced the founding of Trevett Capital Partners (Trevett), a private wealth management boutique created to serve high net worth clientele in southwest Florida, operating as a division of Busey Bank. The Trevett name has roots in the legacy organizations upon which First Busey Corporation was founded, dating back to the Trevett-Mattis Banking Company in 1861. Trevett will build upon our established presence in Florida and the broad capabilities of our existing Wealth Management operation to provide concierge service and tailored solutions for the accumulation and preservation of capital and generational legacies. A highly tenured team of sophisticated wealth management professionals with an in-depth knowledge of the Florida market will lead the delivery of comprehensive investment, estate planning, trust and private banking solutions.

Busey Wealth Management s net income of $0.8 million for the third quarter of 2012 fell slightly from $1.0 million for the second quarter of 2012, but was comparable to the $0.7 million earned in the third quarter of 2011. Busey Wealth Management s net income for the first nine months of 2012 was $2.6 million as compared to $2.4 million for the first nine months of 2011. FirsTech s net income of $0.2 million for the third quarter of 2012 remained consistent with the amount earned in the second quarter of 2012, but slightly decreased from $0.4 million for the third quarter of 2011. FirsTech s net income for the first nine months of 2012 was $0.7 million as compared to $1.3 million for the same period of 2011 due to decreased volume of online bill payments.

Asset Quality

While much internal focus has been directed toward organic growth, our commitment to credit quality remains strong, as evidenced by another quarter of positive trends across a range of credit indicators. We expect continued gradual improvement in our overall asset quality during the remainder of 2012; however, this remains dependent upon market-specific economic conditions. The key metrics are as follows:

- Non-performing loans decreased to $25.2 million at September 30, 2012 from $33.8 million at June 30, 2012 and $38.5 million at December 31, 2011.

- Illinois/Indiana non-performing loans decreased to $17.4 million at September 30, 2012 from $25.3 million at June 30, 2012 and $27.7 million at December 31, 2011.

- Florida non-performing loans decreased to $7.8 million at September 30, 2012 from $8.5 million at June 30, 2012 and $10.8 million at December 31, 2011.

- Loans 30-89 days past due increased to $7.9 million at September 30, 2012 from $4.2 million at June 30, 2012 and $4.7 million at December 31, 2011. The increase primarily related to a few large commercial credits that are actively being pursued for collection. Loans 30-89 days past due as a percentage of gross loan balances at September 30, 2012 were 0.39%, which compares favorably to peer averages per publically available Federal Reserve System Bank Holding Company Performance Reports.

- Other non-performing assets, primarily consisting of other real estate owned, increased to $8.5 million at September 30, 2012 from $7.8 million at June 30, 2012, but remained consistent with the amount recorded at December 31, 2011. The increase in other real estate owned and the decline in non-performing loans in the third quarter of 2012 were interrelated due to the foreclosure of a large commercial property. This property was previously classified as a non-performing loan in the second quarter of 2012.

- The ratio of non-performing assets to total loans plus other non-performing assets at September 30, 2012 decreased to 1.65% from 2.05% at June 30, 2012 and 2.28% at December 31, 2011.

- The allowance for loan losses to non-performing loans ratio increased to 195.38% at September 30, 2012 from 150.42% at June 30, 2012 and 151.91% at December 31, 2011.

- The allowance for loan losses to total loans ratio decreased to 2.42% at September 30, 2012 compared to 2.52% at June 30, 2012 and 2.85% at December 31, 2011.

- Net charge-offs of $5.2 million recorded in the third quarter of 2012 were lower than the $7.5 million recorded in the second quarter of 2012 and the $10.4 million recorded in the third quarter of 2011.

- Provision expense decreased to $3.5 million in the third quarter of 2012 from $4.5 million recorded in the second quarter of 2012 and $5.0 million recorded in the third quarter of 2011.

Economic Conditions of Markets

The Illinois markets we operate in possess strong industrial, academic and healthcare employment bases. Our primary downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, familiar and stable organizations. Although our downstate Illinois and Indiana markets experienced economic distress in recent years, they did not experience it to the level of many other areas, including our southwest Florida market. While future economic conditions remain uncertain, our markets have not experienced further significant downside impact over the past few years and, as a whole, have begun to show signs of improvement.

Champaign County is home to the University of Illinois Urbana/Champaign (U of I), the University s primary campus. U of I has in excess of 42,000 students. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is home to Archer Daniels Midland (ADM), a Fortune 100 company and one of the largest agricultural processors in the world. ADM s presence in Macon County supports many derivative businesses in the agricultural processing arena. 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.

For the past several months, the agriculture sector in the United States has been dealing with the nation s worst drought in decades. Loans to finance agricultural production and other loans to farmers do not represent a significant portion of our total loan portfolio, with balances of $27.2 million or approximately 1% of total loans as of September 30, 2012. Additionally, loans secured by farmland totaled $43.4 million or approximately 2% of total loans for the same period. Currently, the economic impact of the drought appears to be less than originally anticipated in our markets. Commodity prices along with crop insurance have helped soften the effect of poor corn yields. The drought s negative impact on soybean yields has been less than anticipated and less than that of corn. Commodity prices and crop insurance are also minimizing the effect of decreased soybean yields. The financial condition of these clients and the agriculture base in our communities will continue to be monitored by management for negative effects in upcoming periods.

Southwest Florida has shown signs of improvement in areas such as unemployment and home sales since 2011. As southwest Florida s economy is based primarily on tourism and the secondary/retirement residential market, significant declines in discretionary spending brought on by the difficult economic period since 2008 have caused significant damage to that economy and, the recent improvement in certain economic indicators notwithstanding, we expect it will take southwest Florida a number of years to return to the economic strength it demonstrated just a few years ago.

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

OPERATING PERFORMANCE

NET INTEREST INCOME

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percentage 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 table shows the consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for the interest-bearing liabilities, and the related interest rates for the periods, or as of the dates, shown. All average information is provided on a daily average basis.

AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

		2012			2011		Change in income/ expense due to (1)		
	Average Balance	Income/ Expense	Yield/ Rate (3)	Average Balance	Income/ Expense	Yield/ Rate (3)	Average Volume	Average Yield/Rate	Total Change
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits	$ 203,650	$ 132	0.26%	$ 244,712	$ 165	0.27%	$ (27)	$ (6)	$ (33)
Investment securities									
U.S. Government obligations	470,912	1,943	1.64%	398,857	2,338	2.33%	372	(767)	(395)
Obligations of states and political subdivisions(1)	246,494	1,804	2.91%	118,409	1,103	3.70%	976	(275)	701
Other securities	268,527	1,254	1.86%	248,217	1,348	2.15%	103	(197)	(94)
Loans(1) (2)	2,014,586	24,488	4.84%	2,128,079	28,334	5.28%	(1,488)	(2,358)	(3,846)
Total interest-earning assets	$ 3,204,169	$ 29,621	3.68%	$ 3,138,274	$ 33,288	4.21%	$ (64)	$ (3,603)	$ (3,667)
Cash and due from banks	78,974			77,071					
Premises and equipment	71,172			70,870					
Allowance for loan losses	(50,199)			(69,360)					
Other assets	184,313			204,023					
Total Assets	$ 3,488,429			$ 3,420,878					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 41,083	$ 16	0.15%	$ 41,424	$ 22	0.21%	$	$ (6)	$ (6)
Savings deposits	195,542	46	0.09%	187,602	78	0.16%	3	(35)	(32)
Money market deposits	1,390,501	717	0.21%	1,228,590	964	0.31%	114	(361)	(247)
Time deposits	731,571	2,181	1.19%	845,975	3,393	1.59%	(420)	(792)	(1,212)
Short-term borrowings:									
Repurchase agreements	116,141	63	0.22%	127,413	87	0.27%	(7)	(17)	(24)
Other		8	%		9	%		(1)	(1)
Long-term debt	8,330	106	5.06%	19,834	230	4.60%	(145)	21	(124)
Junior subordinated debt owed to unconsolidated trusts	55,000	329	2.38%	55,000	301	2.17%		28	28
Total interest-bearing liabilities	$ 2,538,168	$ 3,466	0.54%	$ 2,505,838	$ 5,084	0.80%	$ (455)	$ (1,163)	$ (1,618)
Net interest spread			3.14%			3.41%			
Noninterest-bearing deposits	508,030			465,664					
Other liabilities	26,734			27,200					
Stockholders equity	415,497			422,176					
Total Liabilities and Stockholders Equity	$ 3,488,429			$ 3,420,878					
Interest income / earning assets(1)	$ 3,204,169	$ 29,621	3.68%	$ 3,138,274	$ 33,288	4.21%			
Interest expense / earning assets	$ 3,204,169	$ 3,466	0.43%	$ 3,138,274	$ 5,084	0.64%			
Net interest margin (1)		$ 26,155	3.25%		$ 28,204	3.57%	$ 391	$ (2,440)	$ (2,049)

(1) On a tax-equivalent basis assuming a federal income tax rate of 35% for 2012 and 2011.

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

(3) Annualized.

AVERAGE BALANCE SHEETS AND INTEREST RATES

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

	2012			2011			Change in income/ expense due to (1)		
	Average Balance	**Income/ Expense**	**Yield/ Rate (3)**	**Average Balance**	**Income/ Expense**	**Yield/ Rate (3)**	**Average Volume**	**Average Yield/Rate**	**Total Change**
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits	$ 265,126	$ 503	0.25%	$ 303,629	$ 579	0.25%	$ (73)	$ (3)	$ (76)
Investment securities									
U.S. Government obligations	451,808	6,053	1.79%	384,020	6,955	2.42%	1,102	(2,004)	(902)
Obligations of states and political subdivisions(1)	206,667	4,848	3.13%	97,101	3,229	4.45%	2,796	(1,177)	1,619
Other securities	275,950	3,915	1.90%	221,779	4,033	2.43%	874	(992)	(118)
Loans(1) (2)	2,009,358	74,728	4.97%	2,207,011	88,192	5.34%	(7,549)	(5,915)	(13,464)
Total interest-earning assets	$ 3,208,909	$ 90,047	3.75%	$ 3,213,540	$ 102,988	4.29%	$ (2,850)	$ (10,091)	$ (12,941)
Cash and due from banks	77,787			76,576					
Premises and equipment	70,227			71,982					
Allowance for loan losses	(53,307)			(73,654)					
Other assets	188,247			211,677					
Total Assets	$ 3,491,863			$ 3,500,121					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 41,440	$ 54	0.17%	$ 40,712	$ 69	0.23%	$ 1	$ (16)	$ (15)
Savings deposits	196,422	194	0.13%	189,516	240	0.17%	9	(55)	(46)
Money market deposits	1,352,144	2,417	0.24%	1,231,888	2,963	0.32%	270	(816)	(546)
Time deposits	752,886	7,361	1.31%	896,749	11,264	1.68%	(1,636)	(2,267)	(3,903)
Short-term borrowings:									
Repurchase agreements	127,905	217	0.23%	130,062	298	0.31%	(5)	(76)	(81)
Other		26	%		29	%		(3)	(3)
Long-term debt	15,585	552	4.73%	32,122	1,212	5.04%	(589)	(71)	(660)
Junior subordinated debt owed to unconsolidated trusts	55,000	994	2.41%	55,000	1,600	3.89%		(606)	(606)
Total interest-bearing liabilities	$ 2,541,382	$ 11,815	0.62%	$ 2,576,049	$ 17,675	0.92%	$ (1,950)	$ (3,910)	$ (5,860)
Net interest spread			3.13%			3.37%			
Noninterest-bearing deposits	510,718			470,965					
Other liabilities	26,732			30,180					
Stockholders equity	413,031			422,927					
Total Liabilities and Stockholders Equity	$ 3,491,863			$ 3,500,121					
Interest income / earning assets(1)	$ 3,208,909	$ 90,047	3.75%	$ 3,213,540	$ 102,988	4.29%			
Interest expense / earning assets	$ 3,208,909	$ 11,815	0.49%	$ 3,213,540	$ 17,675	0.74%			

Net interest margin (1)	$	78,232	3.26%	$	85,313	3.55%	$	(900)	$	(6,181)	$	(7,081)

(1) On a tax-equivalent basis assuming a federal income tax rate of 35% for 2012 and 2011.

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

(3) Annualized.

Average earning assets increased for the three month period ended September 30, 2012 as compared to the same period of 2011, but decreased for the nine month period ended September 30, 2012 as compared to the same period of 2011. Average loans declined $113.5 million and $197.7 million for the three and nine month periods ended September 30, 2012, respectively. The Company is now focusing on rebuilding its loan portfolio with new assets and in recent quarters has made significant investments in tools and talent to support organic growth to address its declining loan balances. Securities increased by $220.5 million and $231.5 million for the three and nine month periods ended September 30, 2012, respectively, which more than offset the declines in average loans; however, at a much lower yield.

Interest-bearing liabilities increased slightly for the three month period ended September 30, 2012 as compared to the same period of 2011, while they decreased for the nine month period ended September 30, 2012 as compared to the same period of 2011. The Company has focused on reducing more expensive non-core funding, which we were able to do in light of the decrease in our average loans and a continued increase in our average core deposits.

Interest income, on a tax-equivalent basis, decreased $3.7 million and $12.9 million for the three and nine month periods ended September 30, 2012, respectively, as compared to the same periods of 2011. The interest income declines related to decreases in loan volume, repricing of assets under a low interest rate environment and heightened competition for assets which is generally being experienced in the banking industry. Interest expense decreased $1.6 million and $5.9 million for the three and nine month periods ended September 30, 2012, respectively, as compared to the same periods of 2011. The interest expense declines were a result of reductions in non-core funding sources and decreases in interest rates offered on certain deposit products as the interest rate environment remains low. Decreases in both interest income and expense were also due in part to changes in the composition of assets and liabilities.

Net interest margin

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 3.25% for the three month period ended September 30, 2012 from 3.57% for the same period in 2011 and decreased to 3.26% for the nine month period ended September 30, 2012 from 3.55% for the same period in 2011.

Quarterly net interest margins for 2012 and 2011 are as follows:

	2012	**2011**
First Quarter	3.31%	3.55%
Second Quarter	3.21%	3.54%
Third Quarter	3.25%	3.57%
Fourth Quarter		3.44%

The net interest spread, also on a tax-equivalent basis, was 3.14% for the three month period ended September 30, 2012, compared to 3.41% for the same period in 2011 and was 3.13% for the nine months ended September 30, 2012 compared to 3.37% for the same period in 2011.

We continue to experience downward pressure on our yield in interest-earning assets. Despite the slight uptick in net interest margin in the third quarter of 2012, we have limited ability to improve margin through funding rate decreases and we believe further improvements in margin will be achieved in the short term through redeployment of our liquid funds at higher yields. Additionally, the competitive environment impacts our ability to improve margin, so the Company is continuing efforts to support organic growth of high quality loans through active investment in sales talent and more robust, dynamic relationship building.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for accounting policies underlying the recognition of interest income and expense.

OTHER INCOME

[redacted]

Trust fees	$	3,960	$	3,460	14.5%	$	13,245	$	11,765	12.6%
Commissions and brokers fees, net		508		495	2.6%		1,578		1,415	11.5%
Remittance processing		2,068		2,335	(11.4)%		6,346		7,119	(10.9)%
Service charges on deposit accounts		2,962		3,283	(9.8)%		8,646		9,513	(9.1)%
Other service charges and fees		1,422		1,341	6.0%		4,246		3,963	7.1%
Gain on sales of loans		3,255		2,977	9.3%		8,924		7,444	19.9%
Security (losses) gains, net		511			NM		575		(2)	NM
Other		903		827	9.2%		5,679		2,786	103.8%
Total other income	$	15,589	$	14,718	5.9%	$	49,239	$	44,003	11.9%

NM=Not meaningful

Combined wealth management revenue, trust and commissions and brokers fees, net, increased for the three and nine month periods ended September 30, 2012 as compared to the same periods in 2011. These increases were led by organic growth, which increased assets under management (AUM) and heightened activity in services to agriculture-based businesses. AUM also improved from securities market valuations and increased returns on investments. AUM averaged $4.0 billion for the first nine months of 2012 compared to $3.8 billion for the first nine months of 2011.

Remittance processing revenue relates to our payment processing company, FirsTech. FirsTech s revenue decreased for the three and nine month periods ended September 30, 2012 as compared to the same periods of 2011 due to decreased volume of online bill payments.

Overall, service charges declined for the three and nine month periods ended September 30, 2012 as compared to the same periods in 2011, in part as a result of new regulation regarding certain charges on deposit accounts. In addition, changing behaviors by our client base to avoid fees and changes in product mix are also affecting service charges.

Gain on sales of loans increased for the three and nine month periods ended September 30, 2012 as compared to the same periods in 2011. Residential mortgage fee activity continues to increase in 2012 compared to 2011, based on strong loan production, an active market for refinancing and positive momentum in the home purchase market.

Net security gains increased for the three and nine month periods ended September 30, 2012 as compared to the same periods in 2011. Approximately $35 million of U.S. Treasuries were sold in September 2012 to offset a portion of the costs of the core processing conversion which was completed during the same period, resulting in the recognition of $0.5 million of realized gains.

Other income increased for the three and nine month periods ended September 30, 2012 as compared to the same periods in 2011. The significant increase for the nine month period was primarily from income earned on a private equity investment fund for which the Company recorded a net gain of $2.1 million. The majority of this gain relates to income earned from an investment in a local, community-focused fund. This gain was non-recurring; therefore, the Company does not expect other income to show significant increases in future periods.

OTHER EXPENSE

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	% Change	2012	2011	% Change
Compensation expense:						
Salaries and wages	$ 13,707	$ 11,090	23.6%	$ 38,966	$ 30,678	27.0%
Employee benefits	2,773	2,494	11.2%	8,791	7,759	13.3%
Total compensation expense	$ 16,480	$ 13,584	21.3%	$ 47,757	$ 38,437	24.2%
Net occupancy expense of premises	2,237	2,211	1.2%	6,598	6,762	(2.4)%
Furniture and equipment expenses	1,276	1,294	(1.4)%	3,858	3,958	(2.5)%
Data processing	3,568	2,145	66.3%	8,366	6,425	30.2%
Amortization of intangible assets	827	885	(6.6)%	2,481	2,653	(6.5)%
Regulatory expense	623	497	25.4%	1,869	3,652	(48.8)%
OREO expense	273	112	143.8%	788	459	71.7%
Other	5,110	4,996	2.3%	15,658	14,228	10.0%
Total other expense	$ 30,394	$ 25,724	18.2%	$ 87,375	$ 76,574	14.1%
Income taxes	$ 2,331	$ 4,151	(43.8)%	$ 7,941	$ 12,217	(35.0)%
Effective rate on income taxes	32.2%	35.4%		31.3%	33.6%	
Efficiency ratio	71.71%	57.87%		66.90%	57.16%	

Total compensation expense increased for the three and nine months ended September 30, 2012 as compared to the same periods in 2011. Full-time equivalent employees increased to 928 at September 30, 2012 from 883 one year earlier. This increase represents the investment in talent to drive future business expansion, primarily in the commercial banking operation to support profitable asset growth through value-added services to commercial clients in our existing and surrounding footprint. Busey Wealth Management has also undertaken a similar strategy to support a diversified revenue stream and expanded client service capabilities.

Combined occupancy expenses and furniture and equipment expenses remained steady for the three months ended September 30, 2012 and decreased for the nine months ended September 30, 2012 as compared to the same period in 2011. We continue to evaluate our operations for appropriate cost control measures.

Data processing expense increased for the three and nine months ended September 30, 2012 as compared to the same periods in 2011 largely due to a core system conversion in the third quarter of 2012. Costs of the system upgrade were partially mitigated through gains on securities sales. Non-recurring costs consisted of conversion fees of $0.3 million, de-conversion and licensing fees to our prior provider of $0.7 million and $0.3 million to enhance certain non-core systems for compatibility with the new core system. Some continued elevation in conversion related expenses is anticipated in the fourth quarter of 2012, but at a significantly lower level than the third quarter.

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

Regulatory expense increased for the three months ended September 30, 2012 as compared to the same period in 2011 as a result of an accrual adjustment in 2011 which reduced expenses in that period. Regulatory expense decreased for the nine months ended September 30, 2012 as compared to the same period in 2011 as a result of a change in the FDIC s rate assessment methodology in April 2011. We anticipate that our regulatory expenses will remain at current levels for the near future.

Our costs associated with OREO, such as collateral preservation and legal fees, increased for the three and nine months ended September 30, 2012 as compared to the same periods in 2011 primarily from increased costs associated with a few commercial properties owned by the Company.

The effective rate on income taxes, or income taxes divided by income before taxes, of 32.2% and 31.3% for the three and nine months ended September 30, 2012, respectively, was lower than the combined federal and state statutory rate of approximately 41% due to fairly stable amounts of tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a greater portion of our taxable income. As taxable income increases, we expect our effective tax rate to increase.

The efficiency ratio represents total other expense, less amortization charges, as a percentage of tax equivalent net interest income plus other income, less security gains and losses. The efficiency ratio, which is a non-GAAP financial measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio for the three and nine month periods ended September 30, 2012 increased from the comparable periods in 2011. The primary reason for the increase was the increase in compensation expense, as noted above. As we continue to add full time equivalent employees, this may have a negative effect on the efficiency ratio until marginal income growth exceeds the marginal cost of our investment.

FINANCIAL CONDITION

SIGNIFICANT BALANCE SHEET ITEMS

		September 30, 2012		December 31, 2011	% Change
		(dollars in thousands)			
Assets					
Securities available for sale	$	964,187	$	831,749	15.9%
Loans, net		1,986,106		1,992,838	(0.3)%
Total assets	$	3,529,664	$	3,402,122	3.7%
Liabilities					
Deposits:					
Noninterest-bearing	$	510,146	$	503,118	1.4%
Interest-bearing		2,382,378		2,260,336	5.4%
Total deposits	$	2,892,524	$	2,763,454	4.7%
Securities sold under agreements to repurchase		131,753		127,867	3.0%
Long-term debt		7,417		19,417	(61.8)%
Total liabilities	$	3,112,343	$	2,992,855	4.0%
Stockholders equity	$	417,321	$	409,267	2.0%

First Busey s balance sheet at September 30, 2012 increased as compared with its balance sheet at December 31, 2011.

Securities available for sale increased by $132.4 million, or 15.9%, at September 30, 2012 compared to December 31, 2011. Net loans, including loans held for sale, declined by $6.7 million, or 0.3%, at September 30, 2012 compared to December 31, 2011. The banking industry as a whole is generally facing challenges with respect to quality asset growth. We continue to invest in talent to drive future business expansion.

Liabilities increased by $119.5 million, or 4.0%, at September 30, 2012 compared to December 31, 2011. We have been able to grow our core deposit base as evidenced by our growth in noninterest-bearing deposits of $7.0 million. In addition, interest-bearing deposits increased $122.0 million. We believe our deposit growth is indicative of the success of our relationship sales model, which includes improved cross-sales to our customer base. While securities sold under agreements to repurchase increased $3.9 million, or 3.0%, at September 30, 2012 compared to December 31, 2011, core growth has generally supported the reduction in higher cost funding alternatives such as long-term debt, which decreased by $12.0 million, from December 31, 2011 to September 30, 2012.

Stockholders equity increased at September 30, 2012 as compared to December 31, 2011. This increase was the result of year-to-date earnings, which were partially offset by dividends.

ASSET QUALITY

Loan Portfolio

Geographic distributions of loans were as follows:

	September 30, 2012			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 365,737	$ 13,639	$ 20,368	$ 399,744
Commercial real estate	770,882	137,822	56,660	965,364
Real estate construction	69,383	14,713	24,246	108,342
Retail real estate	425,641	112,407	10,843	548,891
Retail other	12,477	383	118	12,978
Total	$ 1,644,120	$ 278,964	$ 112,235	$ 2,035,319
Less held for sale(1)				24,415
				$ 2,010,904
Less allowance for loan losses				49,213
Net loans				$ 1,961,691

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

	December 31, 2011			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 375,238	$ 10,830	$ 21,787	$ 407,855
Commercial real estate	793,769	135,360	51,087	980,216
Real estate construction	72,569	16,186	16,110	104,865
Retail real estate	410,844	120,190	9,112	540,146
Retail other	17,547	581	134	18,262
Total	$ 1,669,967	$ 283,147	$ 98,230	$ 2,051,344
Less held for sale(1)				15,249
				$ 2,036,095
Less allowance for loan losses				58,506
Net loans				$ 1,977,589

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

As noted previously, the blend of strong agricultural, manufacturing, academic and healthcare industries prevalent in our downstate Illinois markets anchored the area during the economic challenges of the past few years. Although our downstate Illinois and Indiana markets experienced some economic distress, they have not experienced it to the level of many other areas, including our southwest Florida market. As southwest Florida s economy is based primarily on tourism and the secondary/retirement residential market, significant declines in discretionary spending brought on by the economic conditions of recent years significantly impacted that economy, notwithstanding recent improvement in certain economic indicators. Achieving meaningful organic growth has been a significant focus for 2012 and will continue into 2013.

Allowance for loan losses

Our allowance for loan losses was $49.2 million or 2.42% of loans at September 30, 2012 and $58.5 million or 2.85% of loans at December 31, 2011.

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

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

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

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

Provision for Loan Losses

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

Our provision for loan losses was $3.5 million during the third quarter of 2012 and $5.0 million in the same period of 2011. Our provision for loan losses for the nine months ended September 30, 2012 was $13.0 million and $15.0 million in the same period of 2011. The provision expense during 2012 and 2011 was reflective of management s assessment of the risk in the loan portfolio as compared to the allowance for loan losses.

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

Non-performing Loans

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

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

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
		(dollars in thousands)		
Non-accrual loans	$ 25,129	$ 33,760	$ 33,763	$ 38,340
Loans 90+ days past due and still accruing	59	57	363	173
Total non-performing loans	$ 25,188	$ 33,817	$ 34,126	$ 38,513
Repossessed assets	$ 8,486	$ 7,783	$ 8,719	$ 8,452
Total non-performing assets	$ 33,674	$ 41,600	$ 42,845	$ 46,965
Allowance for loan losses	$ 49,213	$ 50,866	$ 53,835	$ 58,506
Allowance for loan losses to loans	2.4%	2.5%	2.7%	2.9%
Allowance for loan losses to non-performing loans	195.4%	150.4%	157.8%	151.9%
Non-performing loans to loans, before allowance for loan losses	1.2%	1.7%	1.7%	1.9%
Non-performing loans and repossessed assets to loans, before allowance for loan losses	1.7%	2.1%	2.1%	2.3%

We continue to drive positive trends across a range of credit indicators. We expect to continue to see gradual improvements in non-performing assets as we remove under and non-performing loans from our loan portfolio and realize the benefits of gradually improving overall economic conditions. Total non-performing assets were $33.7 million at September 30, 2012, compared to $47.0 million at December 31, 2011.

As of September 30, 2012, Busey Bank had charged-off $16.4 million of principal balance on loans that were on non-accrual status at September 30, 2012. Partial charge-offs reduce the reported principal of the balance of the loan, whereas, a specific allocation of allowance for loan losses does not reduce the reported principal balance of the loan. Non-accrual loans are reported net of charge-offs, but include related specific allocations of the allowance for loan losses. In summary, if we had not charged-off $16.4 million in loans, our non-accrual loans would have been that amount greater than the $25.1 million reported.

Potential Problem Loans

Potential problem loans are those loans which are not categorized as impaired, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with present loan repayment terms. Management assesses the potential for loss on such loans as it would with other problem loans and has considered the effect of any potential loss in determining its provision for probable loan losses. Potential problem loans decreased to $65.4 million at September 30, 2012 compared to $80.6 million at December 31, 2011. The balance of potential problem loans is a reflection of continued economic challenges, however we do not feel the potential losses will be as great as seen in the past, as evidenced in part by the lower balance of potential problem loans at September 30, 2012 compared to December 31, 2011. Management continues to monitor these credits and anticipates that restructures, guarantees, additional collateral or other planned actions will result in full repayment of the debts. As of September 30, 2012, management identified no other loans that represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources. As of September 30, 2012, management was not aware of any information about any other credits which caused management to have serious doubts as to the ability of such borrower(s) to comply with the loan repayment terms.

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LIQUIDITY

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

First Busey s primary sources of funds consist of deposits, investment maturities and sales, loan principal repayments, and capital funds. Additional liquidity is provided by bank lines of credit, repurchase agreements, the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank, and brokered deposits. We also have an operating line of credit in the amount of $20.0 million from our primary correspondent bank, all of which was available as of September 30, 2012. Management intends to satisfy long-term liquidity needs primarily through retention of capital funds.

Based upon the level of investment securities that reprice within 30 days and 90 days, as of September 30, 2012, management believed that adequate liquidity existed to meet all projected cash flow obligations. We seek to achieve a satisfactory degree of liquidity through actively managing both assets and liabilities. Asset management guides the proportion of liquid assets to total assets, while liability management monitors future funding requirements and prices liabilities accordingly.

OFF-BALANCE-SHEET ARRANGEMENTS

At September 30, 2012, the Company had outstanding standby letters of credit of $15.2 million and commitments to extend credit of $551.1 million. Since these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements.

CAPITAL RESOURCES

The Company and Busey Bank are subject to regulatory capital requirements administered by federal and state banking agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulation to ensure capital adequacy require the Company and Busey Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and, for the Bank, Tier 1 capital (as defined) to average assets (as defined). Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, may have a direct material effect on our financial statements. The Company, as a financial holding company, is required to be well capitalized in the two capital categories based on risk-weighted assets, as shown in the table below. We believe, as of September 30, 2012, that the Company and Busey Bank met all capital adequacy requirements to which they are subject, including the guidelines to be considered well capitalized .

	Actual Amount	Actual Ratio	Minimum Capital Requirement Amount	Minimum Capital Requirement Ratio	Minimum To Be Well Capitalized Amount	Minimum To Be Well Capitalized Ratio
			(dollars in thousands)			
As of September 30, 2012:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 423,720	19.02%	$ 178,267	8.00%	$ 222,833	10.00%
Busey Bank	$ 400,848	18.09%	$ 177,222	8.00%	$ 221,528	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 394,991	17.73%	$ 89,134	4.00%	$ 133,700	6.00%
Busey Bank	$ 372,280	16.81%	$ 88,611	4.00%	$ 132,917	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 394,991	11.61%	$ 136,050	4.00%	N/A	N/A
Busey Bank	$ 372,280	11.01%	$ 135,252	4.00%	$ 169,065	5.00%

In June 2012, the federal bank regulatory agencies issued joint proposed rules that would implement an international capital accord called Basel III , developed by the Basel Committee on Banking Supervision, a committee of central bank supervisors. The proposed rules would apply to all depository organizations in the United States and most of their parent companies and would increase minimum capital ratios, add a new minimum common equity ratio, add a new capital conservation buffer, and change the risk-weightings of certain assets for purposes of calculating certain capital ratios. The proposed changes, if implemented, would be phased in from 2013 through 2019. The comment period on these proposed rules expired on October 22, 2012. Various banking associations and industry groups provided comments on the proposed rules to regulators and it is unclear when the final rules will be adopted and what changes, if any, may be made to the proposed rules. Management continues to assess the effect of the proposed rules on the Company and Busey Bank s capital position and will monitor continuing developments relating to the proposed rules.

FORWARD LOOKING STATEMENTS

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

Critical Accounting Estimates

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

Our significant accounting policies are described in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The majority of these accounting policies do not require management to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

Fair Value of Investment Securities. Securities are classified as held-to-maturity when First Busey has the ability and management has the positive intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. First Busey had no securities classified as held-to-maturity or trading at September 30, 2012. 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. All of First Busey s securities are classified as available for sale. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security s terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.

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

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

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

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

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

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

Deferred Taxes. We have maintained significant net deferred tax assets for deductible temporary differences, the largest of which relates to the net operating loss carryforward and the allowance for loan losses. For income tax return purposes, only actual charge-offs are deductible, not the provision for loan losses. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is more likely than not that the deferred tax asset will not be realized. The determination of the recoverability of the deferred tax assets is highly subjective and dependent upon judgment concerning management s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions. We consider both positive and negative evidence regarding the ultimate recoverability of our deferred tax assets. Positive evidence includes available tax planning strategies and the probability that taxable income will continue to be generated in future periods, as it was in the first nine months of 2012 and during 2011 and 2010, while negative evidence includes a cumulative loss in 2009 and 2008 and certain business and economic trends. We evaluated the recoverability of our net deferred tax asset and established a valuation allowance for certain state net operating loss and credit carryforwards that are not expected to be fully realized. Management believes that it is more likely than not that the other deferred tax assets included in the accompanying Consolidated Financial Statements will be fully realized. We have determined that no valuation allowance is required for any other deferred tax assets as of September 30, 2012, although there is no guarantee that those assets will be recognizable in future periods.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

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

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

As interest rate changes do not impact all categories of assets and liabilities equally or simultaneously, the asset-liability committee primarily relies on balance sheet and income simulation analysis to determine the potential impact of changes in market interest rates on net interest income. In these standard simulation models, the balance sheet is projected over a one-year period and net interest income is calculated under current market rates, and then assuming permanent instantaneous shifts of +/-100, +/-200, +/-300 and +/-400 basis points. Management measures such changes assuming immediate and sustained shifts in the Federal funds rate and other market rate indices and the corresponding shifts in other non-market rate indices based on their historical changes relative to changes in the Federal funds rate and other market indices. The model assumes assets and liabilities remain constant at September 30, 2012 balances. The model uses repricing frequency on all variable-rate assets and liabilities. Prepayment speeds on loans have been adjusted to incorporate expected prepayment speeds in both a declining and rising rate environment. As of September 30, 2012, due to the interest rate market, a downward adjustment in Federal fund rates was not possible.

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

	Basis Point Changes							
	-400	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**	**+400**
September 30, 2012	NA	NA	NA	NA	(2.16)%	(4.99)%	(8.18)%	(11.74)%

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

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

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

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) was carried out as of September 30, 2012, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Our management concluded that, as of September 30, 2012, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Controls over Financial Reporting

During the quarter ended September 30, 2012, First Busey did not make any changes in its internal control over financial reporting or other factors that could materially affect, or were reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

None

ITEM 1A: Risk Factors

There have been no material changes to the risk factors disclosed in Item 1A of Part I of the Company s 2011 Annual Report on Form 10-K.

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

Repurchases

There were no purchases made by or on behalf of First Busey of shares of its common stock during the quarter ended September 30, 2012.

On January 22, 2008, First Busey announced that its board of directors had authorized the repurchase of 1,000,000 shares of common stock. First Busey s repurchase plan has no expiration date and is active until all the shares are repurchased or action is taken by the board of directors to discontinue the plan. As of September 30, 2012, under the Company s stock repurchase plan, 895,655 shares remained authorized for repurchase.

ITEM 3: Defaults upon Senior Securities

None

ITEM 4: Mine Safety Disclosures

Not Applicable

ITEM 5: Other Information

(a) None

(b) None

ITEM 6: Exhibits

31.1 Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).

31.2 Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Executive Officer.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Financial Officer.

101*	Interactive Data File

Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at September 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2012 and September 30, 2011; (iii) Consolidated Statements of Other Comprehensive Income for the three and nine months ended September 30, 2012 and September 30, 2011; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and September 30, 2011; and (v) Notes to Unaudited Consolidated Financial Statements.

*As provided in Rule 406T of Regulation S-T, this information shall not be deemed filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, or otherwise subject to liability under those sections.

SIGNATURES

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

FIRST BUSEY CORPORATION

(Registrant)

By: /s/ VAN A. DUKEMAN

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

By: /s/ DAVID B. WHITE

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

Date: November 8, 2012