

FIRST BUSEY CORP /NV/
Form 10-Q
May 06, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 3/31/2011

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)

**100 W. University Ave.,
Champaign, Illinois**
(Address of principal

executive offices)

37-1078406
(I.R.S. Employer Identification No.)

61820
(Zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class	Outstanding at May 6, 2011
Common Stock, \$.001 par value	86,596,527

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2011 and December 31, 2010

(Unaudited)

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Assets		
Cash and due from banks	\$ 412,152	\$ 418,965
Securities available for sale	664,930	599,459
Loans held for sale	20,217	49,684
Loans (net of allowance for loan losses 2011 \$74,849; 2010 \$76,038)	2,137,782	2,243,055
Premises and equipment	72,518	73,218
Goodwill	20,686	20,686
Other intangible assets	18,672	19,556
Cash surrender value of bank owned life insurance	37,881	37,425
Other real estate owned	7,193	9,160
Deferred tax asset, net	61,005	64,240
Other assets	64,929	69,555
Total assets	\$ 3,517,965	\$ 3,605,003
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest bearing	\$ 484,480	\$ 460,661
Interest bearing	2,369,516	2,455,705
Total deposits	\$ 2,853,996	\$ 2,916,366
Securities sold under agreements to repurchase	120,734	138,982
Long-term debt	36,409	43,159
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	27,895	30,991
Total liabilities	\$ 3,094,034	\$ 3,184,498
Stockholders Equity		
Series T Preferred stock, \$.001 par value, 1,000,000 shares authorized, issued and outstanding, 100,000 shares, \$1,000 liquidation value;	\$ 99,622	\$ 99,590
Series B Preferred stock, \$.001 par value, authorized 318.6225 shares; issued and outstanding 2011 none; 2010 318.6225 shares, \$100,000 liquidation value		31,862
Common stock, \$.001 par value, authorized 200,000,000 shares; issued 2011 88,287,132; issued 2010 80,790,132	88	81
Additional paid-in capital	594,266	562,375
Accumulated deficit	(245,224)	(249,418)
Accumulated other comprehensive income	8,196	9,032
Total stockholders equity before treasury stock and unearned ESOP shares	\$ 456,948	\$ 453,522
Common stock shares held in treasury at cost 1,650,605	(32,183)	(32,183)
Unearned ESOP shares 40,000 shares	(834)	(834)
Total stockholders equity	\$ 423,931	\$ 420,505
Total liabilities and stockholders equity	\$ 3,517,965	\$ 3,605,003
Common shares outstanding at period end	86,596,527	79,099,527

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

	2011	2010
	(dollars in thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	\$ 30,508	\$ 36,036
Interest and dividends on investment securities:		
Taxable interest income	3,689	3,905
Non-taxable interest income	705	752
Dividends	4	
Total interest income	\$ 34,906	\$ 40,693
Interest expense:		
Deposits	\$ 5,259	\$ 9,951
Securities sold under agreements to repurchase	111	163
Short-term borrowings	10	
Long-term debt	496	894
Junior subordinated debt owed to unconsolidated trusts	683	680
Total interest expense	\$ 6,559	\$ 11,688
Net interest income	\$ 28,347	\$ 29,005
Provision for loan losses	5,000	14,700
Net interest income after provision for loan losses	\$ 23,347	\$ 14,305
Other income:		
Trust fees	\$ 4,548	\$ 4,210
Commissions and brokers' fees, net	441	440
Remittance processing	2,381	2,620
Service charges on deposit accounts	3,047	2,733
Other service charges and fees	1,282	1,210
Gain on sales of loans	2,632	2,438
Security (losses) gains, net	(2)	742
Other	1,210	1,901
Total other income	\$ 15,539	\$ 16,294
Other expenses:		
Salaries and wages	\$ 9,560	\$ 9,666
Employee benefits	2,759	2,639
Net occupancy expense of premises	2,415	2,342
Furniture and equipment expenses	1,324	1,531
Data processing	2,110	1,896
Amortization of intangible assets	884	1,023
Regulatory expense	1,847	1,463
OREO expense	212	393
Other	4,554	4,260
Total other expenses	\$ 25,665	\$ 25,213
Income before income taxes	\$ 13,221	\$ 5,386
Income taxes	4,111	1,169
Net income	\$ 9,110	\$ 4,217
Preferred stock dividends and discount accretion	1,776	1,282
Net income available to common stockholders	\$ 7,334	\$ 2,935
Basic earnings per common share	\$ 0.09	\$ 0.04
Diluted earnings per common share	\$ 0.09	\$ 0.04

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Dividends declared per share of common stock	\$	0.04	\$	0.04
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See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

	2011	2010
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 9,110	\$ 4,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	68	35
Depreciation and amortization	2,300	2,587
Provision for loan losses	5,000	14,700
Provision for deferred income taxes	3,502	(891)
Amortization of security premiums and discounts, net	1,438	1,286
Security loss (gain), net	2	(742)
Gain on sales of loans, net	(2,632)	(2,438)
Net gain on sales of OREO properties	(92)	(139)
Increase in cash surrender value of bank owned life insurance	(456)	(677)
Change in assets and liabilities:		
Decrease in other assets	4,039	2,777
Decrease in other liabilities	(2,254)	(1,084)
Decrease in interest payable	(847)	(1,786)
Decrease in income taxes receivable	587	2,060
Net cash provided by operating activities before loan originations and sales	\$ 19,765	\$ 19,905
Loans originated for sale	(98,694)	(102,886)
Proceeds from sales of loans	130,793	105,336
Net cash provided by operating activities	\$ 51,864	\$ 22,355
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	2,681	28,364
Proceeds from maturities of securities classified available for sale	32,103	54,043
Purchase of securities classified available for sale	(102,798)	(43,124)
Decrease in loans	98,850	61,486
Proceeds from sale of premises and equipment		40
Proceeds from sale of OREO properties	3,482	3,027
Purchases of premises and equipment	(716)	(399)
Net cash provided by investing activities	\$ 33,602	\$ 103,437

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Three Months Ended March 31, 2011 and 2010

(Unaudited)

	2011	2010
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	\$ (92,155)	\$ (82,286)
Net increase (decrease) in demand, money market and savings deposits	29,785	(9,776)
Cash dividends paid	(4,911)	(3,906)
Net decrease in securities sold under agreements to repurchase	(18,248)	(9,028)
Principal payments on long-term debt	(6,750)	(9,000)
Net cash used in financing activities	\$ (92,279)	\$ (113,996)
Net (decrease) increase in cash and due from banks	\$ (6,813)	\$ 11,796
Cash and due from banks, beginning	\$ 418,965	\$ 207,071
Cash and due from banks, ending	\$ 412,152	\$ 218,867
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 7,407	\$ 13,474
Income taxes	\$ 270	\$
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	\$ 1,423	\$ 4,582
Dividends accrued	\$ 759	\$ 758
Conversion of Series B Preferred stock to Common stock	\$ 31,862	\$

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Net income	\$ 9,110	\$ 4,217
Other comprehensive (loss) income, before tax:		
Unrealized net (losses) gains on securities:		
Unrealized net holding (losses) gains arising during period	\$ (1,105)	\$ 1,144
Less reclassification adjustment for losses (gains) included in net income	2	(742)
Other comprehensive (loss) income, before tax	\$ (1,103)	\$ 402
Income tax (benefit) expense related to items of other comprehensive loss	(267)	160
Other comprehensive (loss) income, net of tax	\$ (836)	\$ 242
Comprehensive income	\$ 8,274	\$ 4,459

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (First Busey or the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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

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

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

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Annual Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended March 31, 2011 through the date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

Note 2: Recent Accounting Pronouncements

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

FASB ASC Topic 350, Intangibles - Goodwill and Other - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. New authoritative accounting guidance (Accounting Standards Update No. 2010-28) under ASC Topic 350 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those units, an entity is required to perform Step 2 of the goodwill impairment test if it is more-likely-than-not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. This update became effective for the Company on January 1, 2011 and did not have a significant impact on the Company's financial statements.

FASB ASC Topic 805, Business Combinations - Disclosure of Supplementary Pro Forma Information for Business Combinations. New authoritative accounting guidance (Accounting Standards Update No. 2010-29) under ASC Topic 805 provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by Topic 805 when comparative financial statements are presented. This update also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. ASU 2010-29 is effective for the Company for business combinations occurring after December 31, 2010.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains (dollars in thousands)	Gross Unrealized Losses	Fair Value
March 31, 2011:				
U.S. Treasury securities	\$ 305	\$ 84	\$	\$ 389
Obligations of U.S. government corporations and agencies	367,565	7,575	(186)	374,954
Obligations of states and political subdivisions	78,959	2,751	(20)	81,690
Residential mortgage-backed securities	198,847	3,612	(1,493)	200,966
Corporate debt securities	1,248	50		1,298
	646,924	14,072	(1,699)	659,297
Mutual funds and other equity securities	4,118	1,515		5,633
	\$ 651,042	\$ 15,587	\$ (1,699)	\$ 664,930

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

The amortized cost and fair value of debt securities available for sale as of March 31, 2011, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying the residential mortgage-backed securities may be called or prepaid without penalties, therefore, actual maturities could differ from the contractual maturities. All residential mortgage-backed securities were issued by U.S. government agencies and corporations.

	Amortized Cost (dollars in thousands)	Fair Value
Due in one year or less	\$ 91,186	\$ 92,167
Due after one year through five years	319,823	327,604
Due after five years through ten years	147,869	150,323
Due after ten years	88,046	89,203
	\$ 646,924	\$ 659,297

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

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Gross security gains	\$	\$ 742
Gross security losses		2
Net security (losses) gains	\$	\$ 742

The tax provision for these net realized gains and losses was insignificant for the quarter ended March 31, 2011 and \$0.3 million for the quarter ended March 31, 2010.

Investment securities with carrying amounts of \$412.7 million and \$405.7 million on March 31, 2011 and December 31, 2010, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

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

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
March 31, 2011:						
Obligations of U.S. government agencies and corporations	\$ 26,441	\$ 186	\$	\$	\$ 26,441	\$ 186
Obligations of states and political subdivisions	3,710	20			3,710	20
Residential mortgage-backed securities	122,037	1,493			122,037	1,493
Total temporarily impaired securities	\$ 152,188	\$ 1,699	\$	\$	\$ 152,188	\$ 1,699

	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, 2010:						
Obligations of U.S. government agencies and corporations	\$ 15,698	\$ 86	\$	\$	\$ 15,698	\$ 86
Obligations of states and political subdivisions	8,452	96			8,452	96
Residential mortgage-backed securities	95,926	1,234			95,926	1,234
Total temporarily impaired securities	\$ 120,076	\$ 1,416	\$	\$	\$ 120,076	\$ 1,416

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The total number of securities in the investment portfolio in an unrealized loss position as of March 31, 2011 was 40, which represented a loss of 1.12% of the aggregate carrying value. 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 March 31, 2011.

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

Note 4: Loans

Geographic distributions of loans were as follows:

	March 31, 2011			Total
	Illinois	Florida	Indiana	
	(dollars in thousands)			
Commercial	\$ 378,723	\$ 14,946	\$ 23,056	\$ 416,725
Commercial real estate	856,340	137,927	41,920	1,036,187
Real estate construction	98,299	18,008	26,791	143,098
Retail real estate	452,712	136,533	12,753	601,998
Retail other	33,536	1,152	152	34,840
Total	\$ 1,819,610	\$ 308,566	\$ 104,672	\$ 2,232,848
Less held for sale(1)				20,217
				\$ 2,212,631
Less allowance for loan losses				74,849
Net loans				\$ 2,137,782

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

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

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

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

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

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

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

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

The Company's lending can be summarized into five primary areas; commercial loans, commercial real estate loans, real estate construction, retail real estate loans, and other retail loans. A description of each of the lending areas can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The significant majority of the lending activity occurs in the Company's Illinois and Indiana markets, with the remaining 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 codes 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.

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- *Grade 7-* This grade includes loans on management's watch list and is intended to be utilized on a temporary basis for a pass grade borrower where a significant risk-modifying action is anticipated in the near future.
- *Grade 8-* This grade is for Other Assets Especially Mentioned loans that have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the bank's credit position at some future date.
- *Grade 9-* This grade includes Substandard loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Assets so classified must have well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
- *Grade 10-* This grade includes Doubtful loans that have all the characteristics of a substandard loan with additional factors that make collection in full highly questionable and improbable. Such loans are placed on non-accrual status and may be dependent on collateral having a value that is difficult to determine.

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

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

	Weighted Avg. Risk Grade	March 31, 2011					
		Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10	
Illinois/Indiana							
Commercial	5.18	\$ 287,077	\$ 47,613	\$ 21,810	\$ 35,148	\$ 10,131	
Commercial real estate	5.90	597,310	128,735	82,116	77,838	12,261	
Real estate construction	7.51	27,213	21,265	50,641	18,823	7,148	
Retail real estate	3.70	412,214	10,951	5,761	4,354	6,865	
Retail other	3.55	28,919	3,148	709	902	10	
Total Illinois/Indiana		\$ 1,352,733	\$ 211,712	\$ 161,037	\$ 137,065	\$ 36,415	
Florida							
Commercial	6.94	\$ 6,749	\$ 3,612	\$ 739	\$ 636	\$ 3,210	
Commercial real estate	6.73	64,980	13,701	33,003	16,782	9,461	
Real estate construction	8.16	542	821	12,655	2,542	1,448	
Retail real estate	4.33	98,751	2,934	21,951	5,995	6,289	
Retail other	3.15	1,041	5	100		6	
Total Florida		\$ 172,063	\$ 21,073	\$ 68,448	\$ 25,955	\$ 20,414	
Total		\$ 1,524,796	\$ 232,785	\$ 229,485	\$ 163,020	\$ 56,829	

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

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

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

	March 31, 2011					Non-accrual Loans
	30-59 Days	Loans past due, still accruing		90+Days		
		60-89 Days	(dollars in thousands)			
Illinois/Indiana						
Commercial	\$ 3,353	\$ 648	\$ 259	\$ 10,131		
Commercial real estate	3,793	212	38	12,261		
Real estate construction	1,175			7,148		
Retail real estate	3,947	1,173	799	6,865		
Retail other	68	28	16	10		
Total Illinois/Indiana	\$ 12,336	\$ 2,061	\$ 1,112	\$ 36,415		
Florida						
Commercial	\$	\$	\$	\$ 3,210		
Commercial real estate	1,393			9,461		
Real estate construction	119			1,448		
Retail real estate	2,100	311	2,966	6,289		
Retail other		99		6		
Total Florida	\$ 3,612	\$ 410	\$ 2,966	\$ 20,414		
Total	\$ 15,948	\$ 2,471	\$ 4,078	\$ 56,829		
	December 31, 2010					Non-accrual Loans
	30-59 Days	Loans past due, still accruing		90+Days		
		60-89 Days	(dollars in thousands)			
Illinois/Indiana						
Commercial	\$ 1,613	\$ 803	\$ 458	\$ 16,323		
Commercial real estate	713	273	458	12,868		
Real estate construction		620		6,857		
Retail real estate	8,698	2,978	2,130	5,615		
Retail other	2,226	653	30			
Total Illinois/Indiana	\$ 13,250	\$ 5,327	\$ 2,618	\$ 41,663		
Florida						
Commercial	\$	\$	\$	\$ 3,274		
Commercial real estate	704	337		10,920		
Real estate construction	175			2,457		
Retail real estate	3,547	109		7,162		
Retail other	28			10		
Total Florida	\$ 4,454	\$ 446	\$ 2,618	\$ 23,823		
Total	\$ 17,704	\$ 5,773	\$ 2,618	\$ 65,486		

The gross interest income that would have been recorded in the three months ended March 31, 2011 if the non-accrual loans had been current in accordance with their original terms was \$1.1 million. 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 months ended March 31, 2011. All significant impaired loans are on non-accrual.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled payments of principal and interest payments when due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the

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significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. A loan is assessed for impairment by the Company if one of the following criteria is met: loans 60 days or more past due and over \$0.25 million, loans graded eight over \$0.5 million or loans graded nine or below.

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

The Company will restructure loans when the borrower demonstrates the inability to comply with the terms of the loan, but can demonstrate the ability to meet acceptable restructured terms. Restructurings generally include one or more of the following restructuring options: interest-only, interest rate reduction, change in interest rate and payment deferral. Restructured loans in compliance with modified terms are classified as impaired. At March 31, 2011 and December 31, 2010, the Company had restructured loans of \$23.6 million and \$28.2 million, respectively, which were performing in accordance with the restructured terms and were considered impaired for disclosure and allowance for loan loss determination.

Impaired loan totals in the categories below are net of partial charge-offs taken against those loans during the year. The balance shown does not reflect the total amounts due from the customer. The following table presents data on impaired loans:

	March 31, 2011					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	\$ 22,845	\$ 11,494	\$ 2,363	\$ 13,857	\$ 925	\$ 14,683
Commercial real estate	40,305	19,678	13,464	33,142	6,445	40,218
Real estate construction	22,474	13,473	2,491	15,964	898	27,636
Retail real estate	41,727	28,394	4,026	32,420	1,150	38,849
Retail other	32	26	6	32	8	77
Total	\$ 127,383	\$ 73,065	\$ 22,350	\$ 95,415	\$ 9,426	\$ 121,463

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

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

Allowance for Loan Losses

The allowance for loan losses represents a conservative estimate of the amount of losses believed inherent in our loan portfolio at the balance sheet date. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, we believe the reserve to be consistent with prior periods and adequate to cover the estimated losses in our loan portfolio at March 31, 2011 and December 31, 2010.

The allowance for loan losses is evaluated geographically, by class of loans. The significant majority of the lending activity occurs in the Company's Illinois markets, with the remaining in the Florida and Indiana markets. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

The general portion of the Company's allowance contains two components: (i) a component for historical loss ratios, and (ii) a component for adversely graded loans. The historical loss ratio component is calculated using a sum-of-years digits weighted 20 quarter historical average, where the most recent four quarters are the most heavily weighted.

During the first three quarters of 2010 we annualized the year to date charge-offs to arrive at our 2010 charge-off ratio, which was then weighted on a sum of years digit basis. As of March 31, 2011, we have switched to the rolling 20 quarter method noted above. The change was made as our decline in charge-offs expected during 2011 and forward would under weigh 2010 charge-off activity. The change to a rolling 20 quarter weighted average calculation increased our allowance requirements by 13.3% compared to the method used for March 31, 2010.

The Company's component for adversely graded loans attempts to quantify the additional risk of loss inherent in the special mention (grade 8) and substandard, on accrual (grade 9) portfolios. The substandard, on accrual 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 substandard, on accrual loan was 3.25% and 3% as of March 31, 2011 and December 31, 2010, respectively, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs.

Special mention loans have an additional allocation placed on them determined by the trend difference of the respective loan type/geography three and five year historical loss trends, whereas if the three year average is higher (more current information) than the five year average, we add the additional amount to the allocation. The minimum additional amount for special mention loans is 1.25% based upon a review of the differences between the three and five year historical loss averages by region.

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

Impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using a combination of observable inputs, including recent appraisals discounted for collateral specific changes and current market conditions and unobservable inputs based on customized discounting criteria. Due to the significant and rapid decline in real estate valuations in southwest Florida in recent years, valuations of collateral in this market are largely based upon current market conditions and unobservable inputs, which typically indicate a value less than appraised value.

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

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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.

	March 31, 2011						Total
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Unallocated	
Beginning balance	\$ 13,840	\$ 32,795	\$ 11,903	\$ 14,947	\$ 2,553	\$	\$ 76,038
Provision for loan loss	1,661	2,965	(435)	2,591	(1,782)		5,000
Charged-off	(3,981)	(851)	(1,484)	(2,235)	(151)		(8,702)
Recoveries	1,147	112	872	205	177		2,513
Ending Balance	\$ 12,667	\$ 35,021	\$ 10,856	\$ 15,508	\$ 797	\$	\$ 74,849
Amount allocated to:							
Loans individually evaluated for impairment	\$ 925	\$ 6,445	\$ 898	\$ 1,150	\$ 8	\$	\$ 9,426
Loans collectively evaluated for impairment	\$ 11,742	\$ 28,576	\$ 9,958	\$ 14,358	\$ 789	\$	\$ 65,423
Ending Balance	\$ 12,667	\$ 35,021	\$ 10,856	\$ 15,508	\$ 797	\$	\$ 74,849
Loans:							
Loans individually evaluated for impairment	\$ 13,857	\$ 33,142	\$ 15,964	\$ 32,420	\$ 32	\$	\$ 95,415
Loans collectively evaluated for impairment	\$ 402,868	\$ 1,003,045	\$ 127,134	\$ 569,578	\$ 34,808	\$	\$ 2,137,433
Ending Balance	\$ 416,725	\$ 1,036,187	\$ 143,098	\$ 601,998	\$ 34,840	\$	\$ 2,232,848

	March 31, 2010						Total
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Unallocated	
Beginning balance	\$ 9,824	\$ 38,249	\$ 37,490	\$ 12,753	\$ 1,440	\$ 423	\$ 100,179
Provision for loan loss	14,428	2,997	(7,974)	2,221	3,028		14,700
Charged-off	(2,272)	(7,860)	(11,502)	(3,102)	(698)	(423)	(25,857)
Recoveries	16	2,225	2,792	789	85		5,907
Ending Balance	\$ 21,996	\$ 35,611	\$ 20,806	\$ 12,661	\$ 3,855	\$	\$ 94,929
Amount allocated to:							
Loans individually evaluated for impairment	\$ 1,170	\$ 1,490	\$ 2,248	\$ 6,432	\$	\$	\$ 11,340
Loans collectively evaluated for impairment	\$ 20,826	\$ 34,121	\$ 18,558	\$ 6,229	\$ 3,855	\$	\$ 83,589
Ending Balance	\$ 21,996	\$ 35,611	\$ 20,806	\$ 12,661	\$ 3,855	\$	\$ 94,929

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Loans:

Loans individually evaluated for impairment	\$	7,010	\$	47,178	\$	39,351	\$	45,378	\$	61	\$	138,978
Loans collectively evaluated for impairment	\$	459,357	\$	1,137,584	\$	239,951	\$	661,234	\$	69,690	\$	2,567,816
Ending Balance	\$	466,367	\$	1,184,762	\$	279,302	\$	706,612	\$	69,751	\$	2,706,794

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:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Balance	\$ 120,734	\$ 138,982
Weighted average interest rate at end of period	0.35%	0.32%
Maximum outstanding at any month end	\$ 142,557	\$ 141,276
Average daily balance	\$ 139,434	\$ 134,207
Weighted average interest rate during period (1)	0.32%	0.41%

(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 March 31,	
	2011	2010
	(in thousands, except per share data)	
Net income available to common stockholders	\$ 7,334	\$ 2,935
Shares:		
Weighted average common shares outstanding	81,349	66,361
Dilutive effect of outstanding options and warrants as determined by the application of the treasury stock method	7	
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	81,356	66,361
Basic earnings per common share	\$ 0.09	\$ 0.04
Diluted earnings per common share	\$ 0.09	\$ 0.04

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

Diluted earnings per share are determined by dividing net income available to common shareholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options and 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, that option is considered anti-dilutive and is excluded from the calculation of common stock equivalents. At March 31, 2011, 1,141,872 outstanding options and 573,833 warrants were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 7: Stock-based Compensation

Under the terms of the Company's stock option plans, the Company is allowed, but not required, to source stock option exercises from its inventory of treasury stock. As of March 31, 2011, under the Company's stock repurchase plan, 895,655 additional shares were authorized for repurchase. The repurchase plan has no expiration date and expires when the Company has repurchased all of the remaining authorized shares. However, because of First Busey's participation in Capital Purchase Program under the Troubled Asset Relief Program, it will not be permitted to repurchase any shares of its common stock, other than in connection with benefit plans consistent with past practice, until such time as the U.S. Department of the Treasury no longer holds any equity securities in the Company.

During the second quarter of 2010, the Company adopted the First Busey Corporation 2010 Equity Incentive Plan (2010 Equity Plan), which was approved at the annual stockholders meeting on May 19, 2010. The Company will no longer make any additional grants under the prior plans. The prior plans include: the First Busey Corporation 1993 Restricted Stock Award Plan, the First Busey Corporation 1999 Stock Option Plan, the Main Street Trust, Inc. 2000 Stock Incentive Plan, and the First Busey Corporation 2004 Stock Option Plan. A description of the 2010 Equity Incentive Plan can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

A summary of the status of and changes in the Company's stock option plans for the three months ended March 31, 2011 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	1,351,593	\$ 16.09	
Granted			
Exercised			
Forfeited	149,721	11.75	
Outstanding at end of period	1,201,872	\$ 16.64	3.53
Exercisable at end of period	1,141,872	\$ 17.27	3.18

As of March 31, 2011, the Company had an insignificant amount of unrecognized stock option expense. The Company recognized an insignificant amount of compensation expense related to stock options for the three months ended March 31, 2011.

On July 12, 2010, under the terms of the First Busey Corporation 2010 Equity Incentive Plan, the Company granted 191,579 restricted stock units (RSUs) to certain members of management. The fair value of each restricted stock unit was the market price of our stock on the date of grant. On July 12, 2010, the stock price was \$4.75, resulting in total compensation cost of \$910,000. This cost will be recognized over a requisite service period of five years following which the awards will vest 100%. As of March 31, 2011, there was \$773,500 of total unrecognized compensation cost related to these nonvested RSUs.

In addition, employees will earn quarterly dividends on their respective shares. These dividends will not be paid out during the vesting period but instead will be used to purchase additional shares. Therefore, dividends earned each quarter will compound based upon the updated share balances. Upon vesting, shares are expected to be issued from treasury.

Note 8: Income Taxes

At March 31, 2011, the Company was not under examination by any tax authorities.

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.

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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:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 504,480	\$ 498,143
Standby letters of credit	15,429	15,538

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 March 31, 2011, and December 31, 2010, no amounts were recorded as liabilities for the Company's potential obligations under these guarantees.

As of March 31, 2011, 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 trust and investment management services, including estate and financial planning, securities brokerage, investment advice, tax preparation, custody services 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.

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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, 2010.

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

	Goodwill		Total Assets	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
	(dollars in thousands)		(dollars in thousands)	
<u>Goodwill & Total Assets:</u>				
Busey Bank	\$	\$	\$ 3,470,981	\$ 3,577,542
FirsTech	8,992	8,992	25,086	24,473
Busey Wealth Management	11,694	11,694	26,781	26,269
All Other			(4,883)	(23,281)
Total Goodwill	\$ 20,686	\$ 20,686	\$ 3,517,965	\$ 3,605,003

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
<u>Interest income:</u>		
Busey Bank	\$ 34,845	\$ 40,630
FirsTech	14	16
Busey Wealth Management	58	60
All Other	(11)	(13)
Total interest income	\$ 34,906	\$ 40,693
<u>Interest expense:</u>		
Busey Bank	\$ 5,879	\$ 10,925
FirsTech		
Busey Wealth Management		
All Other	680	763
Total interest expense	\$ 6,559	\$ 11,688
<u>Other income:</u>		
Busey Bank	\$ 10,235	\$ 10,751
FirsTech	2,409	2,641
Busey Wealth Management	3,531	3,526
All Other	(636)	(624)
Total other income	\$ 15,539	\$ 16,294
<u>Net income:</u>		
Busey Bank	\$ 8,820	\$ 3,470
FirsTech	450	641
Busey Wealth Management	694	899
All Other	(854)	(793)
Total net income	\$ 9,110	\$ 4,217

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 March 31, 2011.

In general, fair value is based upon quoted market prices, where 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 counterparty credit quality, the company's creditworthiness, among other things, 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.

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The market inputs that the independent pricing service normally seeks for evaluations of securities, listing 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 March 31, 2011 and December 31, 2010, 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)			
March 31, 2011				
Securities available-for-sale:				
U.S. Treasury securities	\$	\$	389	\$ 389
Obligations of U.S. government corporations and agencies		374,954		374,954
Obligations of states and political subdivisions		81,690		81,690
Residential mortgage-backed securities		200,966		200,966
Corporate debt securities	1,298			1,298
Mutual funds and other equity securities	5,633			5,633
	\$ 6,931	\$ 657,999	\$	\$ 664,930
December 31, 2010				
Securities available-for-sale:				
U.S. Treasury securities	\$	\$	381	\$ 381
Obligations of U.S. government corporations and agencies		333,135		333,135
Obligations of states and political subdivisions		76,935		76,935
Residential mortgage-backed securities		183,006		183,006
Corporate debt securities	1,499			1,499
Mutual funds and other equity securities	4,503			4,503
	\$ 6,002	\$ 593,457	\$	\$ 599,459

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 impaired 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.

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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 March 31, 2011 and December 31, 2010, 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)			
March 31, 2011				
Impaired loans	\$	\$	\$ 12,924	\$ 12,924
Foreclosed assets			595	595
December 31, 2010				
Impaired loans	\$	\$	\$ 12,149	\$ 12,149
Foreclosed assets			310	310

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 2010 Form 10-K.

The estimated fair values of financial instruments were as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(dollars in thousands)			
Financial assets:				
Securities	\$ 664,930	\$ 664,930	\$ 599,459	\$ 599,459
Loans held for sale	20,217	20,360	49,684	50,331
Loans, net	2,137,782	2,172,439	2,243,055	2,282,681
Accrued interest receivable	12,485	12,485	12,633	12,633
Financial liabilities:				
Deposits	\$ 2,853,996	\$ 2,863,572	\$ 2,916,366	\$ 2,928,240
Securities sold under agreements to repurchase	120,734	120,734	138,982	138,982
Long-term debt	36,409	37,489	43,159	44,934
Junior subordinated debt owed to unconsolidated trusts	55,000	54,807	55,000	54,547
Accrued interest payable	2,560	2,560	3,408	3,408

**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 March 31, 2011 (unaudited), as compared with December 31, 2010, and the results of operations for the three months ended March 31, 2011 and 2010 (unaudited) and December 31, 2010 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 our 2010 Annual Report on Form 10-K.

EXECUTIVE SUMMARY

Operating Results

Our profit increased to \$9.1 million in the first quarter of 2011 as compared to \$7.3 million in the fourth quarter of 2010 and \$4.2 million in the first quarter of 2010. The primary reason for the increase over the fourth quarter of 2010 was reduced provision expense of \$5.3 million, offset by a decline in gains on sale of mortgage loans of \$3.5 million. The primary reason for the increase over the first quarter of 2010 was reduced provision expense of \$9.7 million, offset by increased tax expense of \$2.9 million.

Significant operating performance items were:

- Net income available to common stockholders (net of TARP dividends) for the quarter ended March 31, 2011 was \$7.3 million, or \$0.09 per fully-diluted share, compared to net income of \$2.9 million, or \$0.04 per fully-diluted common share, for the quarter ended March 31, 2010.
- Net interest margin decreased to 3.55% for the first quarter of 2011 as compared to 3.68% for the fourth quarter of 2010, but increased slightly from 3.52% for the first quarter of 2010. The increase in average earning assets from our December 2010 capital raise and loan pay downs were the primary reasons for the decline in net interest margin in the first quarter of 2011 as compared to fourth quarter of 2010. Overall, yields were fairly consistent on a linked quarter basis.
- Total revenue, net of interest expense and security gains, for the first quarter of 2011 was \$43.9 million compared to \$46.6 million for the fourth quarter of 2010 and \$44.6 million for the first quarter of 2010.
- The efficiency ratio increased to 55.87% for the first quarter of 2011, as compared to 51.51% for the fourth quarter of 2010 and 53.69% for the first quarter of 2010.
- FirsTech's net income increased to \$0.5 million for the first quarter of 2011 compared to \$0.3 million for the fourth quarter of 2010, but decreased slightly compared to \$0.6 million for the first quarter of 2010.
- Busey Wealth Management's net income of \$0.7 million for the first quarter of 2011 was consistent with net income for the fourth quarter of 2010, but decreased slightly from \$0.9 million for the first quarter of 2010.

Asset Quality

Our non-performing loans at March 31, 2011 continued to show improvement. We expect continued gradual improvement in our overall asset quality in 2011; however, this is dependent on market specific economic conditions. The key metrics are as follows:

- Non-performing loans decreased to \$60.9 million at March 31, 2011 from \$68.1 million at December 31, 2010 and \$100.7 million at March 31, 2010.
- Illinois non-performing loans decreased to \$30.1 million at March 31, 2011 from \$38.3 million at December 31, 2010 and \$36.0 million at March 31, 2010.
- Florida non-performing loans decreased slightly to \$23.4 million at March 31, 2011 from \$23.8 million at December 31, 2010 and \$43.7 million at March 31, 2010.
- Indiana non-performing loans increased to \$7.4 million at March 31, 2011 from \$6.0 million at December 31, 2010, but decreased compared to \$21.0 million at March 31, 2010.
- Loans 30-89 days past due decreased to \$18.4 million at March 31, 2011 from \$23.5 million at December 31, 2010, and \$24.6 million at March 31, 2010.
- Other non-performing assets decreased to \$7.2 million at March 31, 2011 from \$9.2 million at December 31, 2010 and \$18.5 million at March 31, 2010.
- The ratio of non-performing assets to total loans plus other real estate owned at March 31, 2011 decreased to 3.04% from 3.25% at December 31, 2010 and 4.38% at March 31, 2010.
- The allowance for loan losses to non-performing loans ratio increased to 122.89% at March 31, 2011 from 111.64% at December 31, 2010 and 94.23% at March 31, 2010.
- The allowance for loan losses to total loans ratio increased to 3.35% at March 31, 2011 compared to 3.21% at December 31, 2010, but decreased from 3.51% at March 31, 2010.
- Net charge-offs were \$6.2 million for the first quarter of 2011, which were lower than the \$17.4 million recorded in the fourth quarter of 2010, and the \$20.0 million recorded for the first quarter of 2010.
- Provision expense in the first quarter of 2011 was \$5.0 million compared to \$10.3 million in the fourth quarter of 2010 and \$14.7 million in the first quarter of 2010.

Our priorities remain *balance sheet strength, profitability and growth in that order*. We expect to continue to see gradual improvement in non-performing loans and profitability while maintaining high capital ratios. In late January 2011, we began an initiative to spur organic growth and provided certain tools to our front line associates to foster this initiative. These tools facilitated the first quarter growth in non-time deposits of \$29.8 million, or 1.6%, over December 31, 2010 levels, and we hope to see continued results going forward. The sales cycle on deposits is

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shorter than the sales cycle on loans. We have not yet experienced growth within our loan portfolio. Loans, net of allowance for loan losses, declined \$105.3 million from December 31, 2010 due to soft loan demand and our reduction of non-relationship commercial real estate exposure. Additionally, loans held-for-sale declined \$29.5 million in that period as interest rate increases on mortgages during the first quarter of 2011 slowed refinancing demand and our gains on sales of loans.

Economic Conditions of Markets

The Illinois markets 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 have experienced a level of economic distress, they have not experienced it to the level of many other areas, including our southwest Florida market.

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 41,000 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 health care presence serving much of the western portion of downstate Illinois. The institutions noted above, coupled with over \$1.5 billion in agricultural output, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

Southwest Florida has shown small signs of improvement in areas such as unemployment and home sales. During 2010, in some areas of our Florida market, unemployment percentages decreased and mean home sales prices began to rise for the first time in years. As southwest Florida’s economy is based primarily in tourism and the secondary/retirement residential market, significant declines in discretionary spending brought on by this economic period have caused significant damage to that economy and 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 whose financial condition is among the most troubled of any in the United States. In January 2011, the State of Illinois passed a bill increasing income taxes for both individuals and corporations. Additionally, the Company is located in markets with significant university and healthcare presence, which rely heavily on state funding and contracts. In February 2011, the State of Illinois issued debt for the primary purpose of supporting its pension obligations, and it is anticipated the State will issue debt later in 2011 for cash flow needs. Currently the State of Illinois is 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.

EARNINGS 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.

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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 MARCH 31, 2011 AND 2010

	Average Balance	2011 Income/ Expense	Yield/ Rate (3)	Average Balance	2010 Income/ Expense	Yield/ Rate (3)	Average Volume	Change due to (1) Average Yield/Rate	Total Change
	(dollars in thousands)								
Assets									
Interest-bearing bank deposits	\$ 359,017	\$ 221	0.25%	\$ 104,332	\$ 55	0.21%	\$ 155	\$ 11	\$ 166
Investment securities									
U.S. Government obligations	357,433	2,184	2.48%	347,216	2,651	3.10%	76	(543)	(467)
Obligations of states and political subdivisions (1)	76,618	1,085	5.74%	80,739	1,157	5.81%	(58)	(14)	(72)
Other securities	205,810	1,288	2.54%	129,303	1,199	3.76%	561	(472)	89
Loans(1) (2)	2,295,219	30,597	5.41%	2,740,631	36,130	5.35%	(5,934)	401	(5,533)
Total interest-earning assets	\$ 3,294,097	\$ 35,375	4.36%	\$ 3,402,221	\$ 41,192	4.91%	\$ (5,200)	\$ (617)	\$ (5,817)
Cash and due from banks	78,579			79,915					
Premises and equipment	73,070			77,190					
Allowance for loan losses	(77,019)			(102,291)					
Other assets	221,381			266,990					
Total Assets	\$ 3,590,108			\$ 3,724,025					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	\$ 36,322	\$ 23	0.26%	\$ 36,532	\$ 16	0.18%	\$	\$ 7	\$ 7
Savings deposits	188,633	81	0.17%	170,781	103	0.24%	10	(32)	(22)
Money market deposits	1,241,181	1,000	0.33%	1,092,754	1,699	0.63%	206	(905)	(699)
Time deposits	953,224	4,155	1.77%	1,339,032	8,133	2.46%	(2,009)	(1,969)	(3,978)
Short-term borrowings:									
Repurchase agreements	139,434	111	0.32%	134,560	163	0.49%	6	(58)	(52)
Other		10	%			%		10	10
Long-term debt	40,631	496	4.95%	80,376	894	4.51%	(478)	80	(398)
Junior subordinated debt owed to unconsolidated trusts	55,000	683	5.04%	55,000	680	5.01%		3	3
Total interest-bearing liabilities	\$ 2,654,425	\$ 6,559	1.00%	\$ 2,909,035	\$ 11,688	1.63%	\$ (2,265)	\$ (2,864)	\$ (5,129)
Net interest spread			3.36%			3.28%			
Noninterest-bearing deposits	479,157			449,338					
Other liabilities	35,543			34,949					
Stockholders equity	420,983			330,703					
Total Liabilities and Stockholders Equity	\$ 3,590,108			\$ 3,724,025					
Interest income / earning assets (1)	\$ 3,294,097	\$ 35,375	4.36%	\$ 3,402,221	\$ 41,192	4.91%			
Interest expense / earning assets	\$ 3,294,097	\$ 6,559	0.81%	\$ 3,402,221	\$ 11,688	1.39%			
Net interest margin (1)		\$ 28,816	3.55%		\$ 29,504	3.52%	\$ (2,935)	\$ 2,247	\$ (688)

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- (1) On a tax-equivalent basis assuming a federal income tax rate of 35% for 2011 and 2010.
 - (2) Non-accrual loans have been included in average loans.
 - (3) Annualized.

Average earning assets decreased for the three month period ended March 31, 2011 as compared to the same period of 2010. The decline in the average balance of earning assets was due primarily to the decrease in loans as we continue to work on strengthening our balance sheet by actively removing under and non-performing loans from our loan portfolio and reducing our exposure to construction and development loans and commercial real estate. Soft loan demand contributed to our lack of loan growth and significant organic loan growth will be a challenge in the near future as we are working against a slow growing economy. Cash and securities increased, which offset the decline in average loans; however, at a much lower yield. Interest-bearing liabilities decreased for the three month period ended March 31, 2011 as compared to the same period of 2010 due to a focus on reducing our non-core funding, which we were able to do in light of a decrease in our average loans and a continued increase in our average noninterest-bearing deposits.

Interest income, on a tax-equivalent basis, decreased for the three month period ended March 31, 2011, as compared to the same period of 2010. The interest income decline primarily related to the decrease in loan volume. Interest expense decreased for the three month period ended March 31, 2011 as compared to the same period of 2010. The decrease in interest expense was primarily due to the declining deposit and debt interest rate environment and our reductions in all non-core funding sources.

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, increased to 3.55% for the three month period ending March 31, 2011 from 3.52% for the same period in 2010. The net interest spread, also on a tax-equivalent basis, was 3.36% for the three month period ending March 31, 2011, up from 3.28% for the same period in 2010. The net interest margin declined from fourth quarter 2010 due to the growth in earning assets in cash, which was a result of loan decline and additional cash from our December 2010 capital offering.

Net interest margin

The net interest margin discussion above is based upon annual results and average balances, which do not fully explain the trends of the net interest margin during the year. Quarterly net interest margins for 2010-2011 were as follows:

	2011	2010
First Quarter	3.55%	3.52%
Second Quarter		3.49%
Third Quarter		3.64%
Fourth Quarter		3.68%

We continue to experience downward pressure on our yield in interest bearing assets. We have limited ability to improve margin through funding rate decreases and we believe improvements in margin will be achieved in the short term through investment of our liquid funds at higher yields.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statement in our 2010 10-K for accounting policies underlying the recognition of interest income and expense.

OTHER INCOME

	Three Months Ended March 31,		% Change
	2011	2010 (dollars in thousands)	
Trust fees	\$ 4,548	\$ 4,210	8.0%
Commissions and brokers' fees, net	441	440	0.2%
Remittance processing	2,381	2,620	(9.1)%
Service charges on deposit accounts	3,047	2,733	11.5%
Other service charges and fees	1,282	1,210	6.0%
Gain on sales of loans	2,632	2,438	8.0%
Security (losses) gains, net	(2)	742	NM
Other	1,210	1,901	(36.3)%
Total other income	\$ 15,539	\$ 16,294	(4.6)%

Combined wealth management revenue, trust and commissions and brokers' fees, net, increased for the three month period ended March 31, 2011 as compared to same period in 2010. The increase was led by modest organic growth and increased security market valuation, which increased assets under management and activity. Assets under management averaged \$3.9 billion for the first three months of 2011 as compared to \$3.5 billion for the first three months of 2010.

Remittance processing revenue relates to our payment processing company, FirsTech. FirsTech's revenue was down for the three month period ended March 31, 2011 as compared to the same period of 2010 due to the reduced activity by a significant cellular phone customer. However, this decrease was expected and we do not anticipate further significant decline in FirsTech's revenue going forward.

Overall, service charges increased for the three month period ended March 31, 2011 as compared to the same period in 2010. New regulation regarding certain charges on deposit accounts may negatively impact the revenue derived from charges on deposit accounts going forward. However, we instituted account changes in the fourth quarter of 2010 that have positively influenced our service fees.

Gain on sales of loans increased slightly from first quarter 2010. However, in contrast to the last nine months of 2010, we do not expect the mortgage gains to increase during 2011.

Other income decreased for the three month period ended March 31, 2011 as compared to the same period in 2010. In the first quarter of 2011, we had an additional \$0.1 million of income related to our bank owned life insurance compared to \$0.3 million in the same period of 2010. Additionally, in 2010, we had \$0.2 million in gains from investments in private equity funds and \$0.1 million recognized as a result of an adjustment to a third party compared to minimal amounts in 2011.

OTHER EXPENSE

	Three Months Ended March 31,		%
	2011	2010 (dollars in thousands)	
Compensation expense:			
Salaries and wages	\$ 9,560	\$ 9,666	(1.1)%
Employee benefits	2,759	2,639	4.5%
Total compensation expense	\$ 12,319	\$ 12,305	0.1%
Net occupancy expense of premises			
	2,415	2,342	3.1%
Furniture and equipment expenses			
	1,324	1,531	(13.5)%
Data processing	2,110	1,896	11.3%
Amortization of intangible assets			
	884	1,023	(13.6)%
Regulatory expense	1,847	1,463	26.2%
OREO expense	212	393	(46.1)%
Other	4,554	4,260	6.9%
Total other expense	\$ 25,665	\$ 25,213	1.8%
Income taxes			
	\$ 4,111	\$ 1,169	251.7%
Effective rate on income taxes	31.1%	21.7%	
Efficiency ratio			
	55.87%	53.69%	

Total compensation expense remained steady for the three months ended March 31, 2011 as compared to the same period in 2010. Full-time equivalent employees decreased to 861 at March 31, 2011 from 894 one year earlier. Combined occupancy expenses and furniture and equipment expenses decreased slightly. Data processing expense increased for the three months ended March 31, 2011 as compared to the same period in 2010 as we continue to invest in additional systems and hardware to better serve our customers.

Amortization expense decreased as we are now in the fourth year of amortization arising from the merger with Main Street. The amortization is on an accelerated basis; thus, barring further acquisitions, we expect amortization expense to continue to gradually decline.

Regulatory expense increased for the three months ended March 31, 2011 as compared to the same period in 2010 as assessment rates implemented industry-wide by the FDIC and IDFPR increased. We expect the FDIC expense to decline as a result of the change in assessment methodology which became effective April 1, 2011.

Our costs associated with OREO, such as collateral preservation and legal fees, decreased for the three months ended March 31, 2011 as compared to the same period in 2010 due to the decline in the number of commercial properties held. Under-performing commercial properties require a greater expense to carry and operate than residential properties.

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The effective rate on income taxes, or income taxes divided by income before taxes, was lower than the statutory rate of approximately 40% 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. During 2010, tax preferred items represented a greater portion of our income than in the comparable period in 2011; thus, the effective tax rate in the first quarter of 2010 of 21.7% was lower than the rate of 31.1% for the first quarter of 2011. In January 2011, the State of Illinois passed an income tax increase for both individuals and corporations. This will increase our state tax expense for 2011 and future years. The Illinois State tax increase resulted in a net benefit during the first quarter of 2011 of \$0.4 million due to the deferred tax asset write-up, offset by the higher tax expense.

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 for the three month period ended March 31, 2011 increased slightly over the comparable period in 2010. The primary reason for the increase was the decrease in net interest income and slight increase in expenses, as noted above. We believe that significant improvements, resulting in a lower efficiency ratio, will be driven by improvement in our net interest margin and non-interest income as opposed to further reductions in costs.

FINANCIAL CONDITION

SIGNIFICANT BALANCE SHEET ITEMS

	March 31, 2011	December 31, 2010	% Change
	(dollars in thousands)		
Assets			
Securities available for sale	\$ 664,930	\$ 599,459	10.9%
Loans, net	2,157,999	2,292,739	(5.9)%
Total assets	\$ 3,517,965	\$ 3,605,003	(2.4)%
Liabilities			
Deposits:			
Noninterest bearing	\$ 484,480	\$ 460,661	5.2%
Interest bearing	2,369,516	2,455,705	(3.5)%
Total deposits	\$ 2,853,996	\$ 2,916,366	(2.1)%
Securities sold under agreements to repurchase	120,734	138,982	(13.1)%
Long-term debt	36,409	43,159	(15.6)%
Total liabilities	\$ 3,094,034	\$ 3,184,498	(2.8)%
Stockholders equity	\$ 423,931	\$ 420,505	0.8%

First Busey's balance sheet at March 31, 2011 has slightly decreased as compared with its balance sheet at December 31, 2010.

Net loans, including loans held for sale, declined by \$134.7 million, of which net charge-offs of loan balances at March 31, 2011 were \$6.2 million. We have been in a continuing process of removing under and non-performing loans from our loan portfolio. While this approach has served us well during the current economic cycle, it is not a sustainable, long-term model for success. Over the remainder of 2011, we will be implementing changes we believe will facilitate growth while continuing to reduce problem loans.

Liabilities decreased \$90.5 million during the first three months of 2011, which was primarily due to the decline in our asset base. As our loan balances declined, we continued to allow high cost funding to mature without replacement. Interest-bearing deposits declined by \$86.2 million, securities sold under agreements to repurchase declined by \$18.2 million and long-term debt declined by \$6.8 million.

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Stockholders' equity increased slightly as a result of first quarter earnings, partially offset by our first quarter dividend and a decrease in our unrealized gains within our investment portfolio.

ASSET QUALITY*Loan Portfolio*

Geographic distributions of loans were as follows:

	March 31, 2011			Total
	Illinois	Florida	Indiana	
	(dollars in thousands)			
Commercial	\$ 378,723	\$ 14,946	\$ 23,056	\$ 416,725
Commercial real estate	856,340	137,927	41,920	1,036,187
Real estate construction	98,299	18,008	26,791	143,098
Retail real estate	452,712	136,533	12,753	601,998
Retail other	33,536	1,152	152	34,840
Total	\$ 1,819,610	\$ 308,566	\$ 104,672	\$ 2,232,848
Less held for sale(1)				20,217
				\$ 2,212,631
Less allowance for loan losses				74,849
Net loans				\$ 2,137,782

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

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

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

As noted previously, the blend of strong agricultural, manufacturing, academia and healthcare industries prevalent in our downstate Illinois markets anchored the area during the economic challenges over the prior three years. Although our downstate Illinois and Indiana markets have experienced a level of economic distress, they have not experienced it to the level of many other areas, including our southwest Florida market.

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As southwest Florida's economy is based primarily in tourism and the secondary/retirement residential market, significant declines in discretionary spending brought on by this economic period have caused significant damage to that economy. The challenging economic environment during 2010 and 2009 did not present many opportunities for loan growth. Many creditworthy borrowers either maintained or decreased their leverage due to the uncertainty of the economy; thus, new loan origination opportunities were not significant. In 2011, we have started implementing changes we believe will facilitate growth while continuing to focus on reducing problem loans.

Allowance for loan losses

Our allowance for loan losses (ALL) was \$74.8 million or 3.35% of loans, not including loans held for sale, at March 31, 2011 compared to \$76.0 million or 3.21% of loans at December 31, 2010.

The allowance for loan losses represents an estimate of the amount of losses believed inherent in our loan portfolio at the balance sheet date. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, we believe the reserve to be consistent with prior periods and adequate to cover the estimated losses in our loan portfolio at March 31, 2011 and December 31, 2010.

The allowance for loan losses is evaluated geographically, by class of loans. The significant majority of the lending activity occurs in the Company's Illinois markets, with the remaining in the Florida and Indiana markets. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

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

During the first three quarters of 2010 we annualized the year to date charge-offs to arrive at our 2010 charge-off ratio, which was then weighted on a sum of years digit basis. As of March 31, 2011, we have switched to the rolling 20 quarter method noted above. The change was made as our decline in charge-offs expected during 2011 and forward would under weigh 2010 charge-off activity. The change to a rolling 20 quarter weighted average calculation increased our allowance requirements by 13.3% compared to the method used for March 31, 2010.

The Company's component for adversely graded loans attempts to quantify the additional risk of loss inherent in the special mention (grade 8) and substandard, on accrual (grade 9) portfolios. The substandard, on accrual 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 substandard, on accrual loan was 3.25% and 3% as of March 31, 2011 and December 31, 2010, respectively, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs.

Special mention loans have an additional allocation placed on them determined by the trend difference of the respective loan type/geography three and five year historical loss trends, whereas if the three year average is higher (more current information) than the five year average, we add the additional amount to the allocation. The minimum additional amount for special mention loans is 1.25% based upon a review of the differences between the three and five year historical loss averages by region.

The specific portion of the Company's allowance relates to loans that are impaired, which includes non-performing loans, troubled debt restructurings and other loans determined to be impaired. The impaired loans are subtracted from the general loans and are allocated specific reserves as necessary.

Impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using a combination of observable inputs, including recent appraisals discounted for collateral specific changes and current market conditions and unobservable inputs based on customized discounting criteria. Due to the significant and rapid decline in real estate valuations in southwest Florida in recent years, valuations of collateral in this market are largely based upon current market conditions and unobservable inputs, which typically indicate a value less than appraised value.

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

We continue to see a decline in our net charge-offs. As a portion of our allowance requirement is based upon weighted historical charge-offs, the lesser amount of charge-offs in the first quarter of 2011 and all of 2010 replaced 2009 and 2008, years with significantly higher charge-offs in the historical data, causing the weighted historical average charge-off rate to decline. The decreased levels of charge-offs and delinquency trends along with declining loan balances, have led to a slight decrease in the allowance requirement. The market mix changed significantly in 2010, from primarily an Indiana and Florida base to an Illinois base. As historical charge-off percentages in Illinois are significantly less than that of Indiana and Florida, this also contributed to the decrease in the required allowance based on weighted historical charge-offs for our loan portfolio, including our adversely graded portfolio. The loss expectations for Indiana and Illinois were less than southwest Florida as real estate values have not experienced the same level of decline.

Overall, the qualitative factors remained stable from December 2010, as there have been no significant improvements or declines in external conditions during the first quarter of 2011.

With few insignificant exceptions, 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 allowance for loan losses necessary to cover probable losses in our loan portfolios.

Management believes the level of the allowance and coverage of non-performing loans at March 31, 2011 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 obtains 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 adequate allowance for known and probable losses. In assessing the adequacy 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 \$5.0 million first quarter of 2011 compared to \$14.7 million in the same period of 2010. The decrease in provision expense during 2011 was reflective of management's assessment of the risk in the loan portfolio as compared to the allowance for loan losses.

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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

It is management's policy to place commercial and mortgage loans on non-accrual status when interest or principal is 90 days or more past due. Such loans may continue on accrual status only if they are both well-secured and in the process of collection.

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

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
	(dollars in thousands)			
Non-accrual loans	\$ 56,829	\$ 65,486	\$ 78,223	\$ 85,969
Loans 90+ days past due and still accruing	4,078	2,618	1,457	1,831
Total non-performing loans	\$ 60,907	\$ 68,104	\$ 79,680	\$ 87,800
Repossessed assets	\$ 7,193	\$ 9,160	\$ 11,470	\$ 14,299
Total non-performing assets	\$ 68,100	\$ 77,264	\$ 91,150	\$ 102,099
Allowance for loan losses	\$ 74,849	\$ 76,038	\$ 83,098	\$ 92,129
Allowance for loan losses to loans	3.4%	3.2%	3.3%	3.5%
Allowance for loan losses to non-performing loans	122.9%	111.6%	104.3%	104.9%
Non-performing loans to loans, before allowance for loan losses	2.7%	2.9%	3.2%	3.4%
Non-performing loans and repossessed assets to loans, before allowance for loan losses	3.0%	3.3%	3.6%	3.9%

Since the first quarter of 2010, we have demonstrated improvement in non-performing assets each quarter. 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 improving overall economic conditions. Total non-performing assets were \$68.1 million at March 31, 2011, compared to \$77.3 million at December 31, 2010. An age analysis of past due loans still accruing and non-accrual loans is as follows:

	March 31, 2011			Non-accrual Loans
	30-59 Days	Loans past due, still accruing 60-89 Days	90+Days	
	(dollars in thousands)			
Illinois/Indiana				
Commercial	\$ 3,353	\$ 648	\$ 259	\$ 10,131
Commercial real estate	3,793	212	38	12,261
Real estate construction	1,175			7,148
Retail real estate	3,947	1,173	799	6,865
Retail other	68	28	16	10
Total Illinois/Indiana	\$ 12,336	\$ 2,061	\$ 1,112	\$ 36,415
Florida				
Commercial	\$	\$	\$	\$ 3,210
Commercial real estate	1,393			9,461

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Real estate construction	119				1,448
Retail real estate	2,100	311	2,966	6,289	
Retail other		99			6
Total Florida	\$ 3,612	\$ 410	\$ 2,966	\$ 20,414	