

FIRST BUSEY CORP /NV/  
Form 10-Q  
August 07, 2014

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

## FORM 10-Q

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

**For the Quarterly Period Ended 6/30/2014**

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

**Commission File No. 0-15950**

## FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**37-1078406**

(I.R.S. Employer Identification No.)

**100 W. University Ave.**

**Champaign, Illinois**

(Address of principal  
executive offices)

**61820**

(Zip code)

Registrant's telephone number, including area code: **(217) 365-4544**

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**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

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

Smaller reporting company ☐

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

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

| Class                          | Outstanding at August 7, 2014 |
|--------------------------------|-------------------------------|
| Common Stock, \$.001 par value | 86,831,027                    |

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

June 30, 2014 and December 31, 2013

(Unaudited)

|                                                                                                                                      | June 30, 2014          | December 31, 2013 |
|--------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                                                                      | (dollars in thousands) |                   |
| <b>Assets</b>                                                                                                                        |                        |                   |
| Cash and due from banks (interest-bearing 2014 \$74,361; 2013 \$118,228)                                                             | \$ 182,032             | \$ 231,603        |
| Securities available for sale, at fair value                                                                                         | 840,112                | 841,310           |
| Securities held to maturity, at amortized cost                                                                                       | 1,850                  | 834               |
| Loans held for sale                                                                                                                  | 20,286                 | 13,840            |
| Loans (net of allowance for loan losses 2014 \$47,428; 2013 \$47,567)                                                                | 2,256,354              | 2,233,893         |
| Premises and equipment                                                                                                               | 64,562                 | 65,827            |
| Goodwill                                                                                                                             | 20,686                 | 20,686            |
| Other intangible assets                                                                                                              | 8,092                  | 9,571             |
| Cash surrender value of bank owned life insurance                                                                                    | 40,752                 | 40,674            |
| Other real estate owned (OREO)                                                                                                       | 1,622                  | 2,133             |
| Deferred tax asset, net                                                                                                              | 26,157                 | 35,642            |
| Other assets                                                                                                                         | 44,944                 | 43,562            |
| Total assets                                                                                                                         | \$ 3,507,449           | \$ 3,539,575      |
| <b>Liabilities and Stockholders' Equity</b>                                                                                          |                        |                   |
| <b>Liabilities</b>                                                                                                                   |                        |                   |
| Deposits:                                                                                                                            |                        |                   |
| Noninterest-bearing                                                                                                                  | \$ 605,346             | \$ 547,531        |
| Interest-bearing                                                                                                                     | 2,256,182              | 2,321,607         |
| Total deposits                                                                                                                       | \$ 2,861,528           | \$ 2,869,138      |
| Securities sold under agreements to repurchase                                                                                       | 140,563                | 172,348           |
| Junior subordinated debt owed to unconsolidated trusts                                                                               | 55,000                 | 55,000            |
| Other liabilities                                                                                                                    | 23,591                 | 27,725            |
| Total liabilities                                                                                                                    | \$ 3,080,682           | \$ 3,124,211      |
| <b>Stockholders' Equity</b>                                                                                                          |                        |                   |
| Series C Preferred stock, \$.001 par value, 72,664 shares authorized, issued and outstanding, \$1,000.00 liquidation value per share | \$ 72,664              | \$ 72,664         |
| Common stock, \$.001 par value, authorized 200,000,000 shares; shares issued 88,287,132                                              | 88                     | 88                |
| Additional paid-in capital                                                                                                           | 593,279                | 593,144           |
| Accumulated deficit                                                                                                                  | (217,906)              | (225,722)         |
| Accumulated other comprehensive income                                                                                               | 7,420                  | 4,456             |
| Total stockholders' equity before treasury stock                                                                                     | \$ 455,545             | \$ 444,630        |
| Common stock shares held in treasury at cost 2014 1,456,105; 2013 1,482,777                                                          | (28,778)               | (29,266)          |
| Total stockholders' equity                                                                                                           | \$ 426,767             | \$ 415,364        |
| Total liabilities and stockholders' equity                                                                                           | \$ 3,507,449           | \$ 3,539,575      |
| Common shares outstanding at period end                                                                                              | 86,831,027             | 86,804,355        |

See accompanying notes to unaudited consolidated financial statements.



## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2014 and 2013

(Unaudited)

|                                                        | 2014                                             |        | 2013 |        |
|--------------------------------------------------------|--------------------------------------------------|--------|------|--------|
|                                                        | (dollars in thousands, except per share amounts) |        |      |        |
| <b>Interest income:</b>                                |                                                  |        |      |        |
| Interest and fees on loans                             | \$                                               | 44,970 | \$   | 46,161 |
| Interest and dividends on investment securities:       |                                                  |        |      |        |
| Taxable interest income                                |                                                  | 6,275  |      | 6,454  |
| Non-taxable interest income                            |                                                  | 1,662  |      | 1,960  |
| Total interest income                                  | \$                                               | 52,907 | \$   | 54,575 |
| <b>Interest expense:</b>                               |                                                  |        |      |        |
| Deposits                                               | \$                                               | 2,668  | \$   | 3,921  |
| Securities sold under agreements to repurchase         |                                                  | 74     |      | 84     |
| Short-term borrowings                                  |                                                  |        |      | 15     |
| Long-term debt                                         |                                                  |        |      | 125    |
| Junior subordinated debt owed to unconsolidated trusts |                                                  | 587    |      | 602    |
| Total interest expense                                 | \$                                               | 3,329  | \$   | 4,747  |
| Net interest income                                    | \$                                               | 49,578 | \$   | 49,828 |
| Provision for loan losses                              |                                                  | 2,000  |      | 4,000  |
| Net interest income after provision for loan losses    | \$                                               | 47,578 | \$   | 45,828 |
| <b>Other income:</b>                                   |                                                  |        |      |        |
| Trust fees                                             | \$                                               | 10,697 | \$   | 9,921  |
| Commissions and brokers' fees, net                     |                                                  | 1,347  |      | 1,109  |
| Remittance processing                                  |                                                  | 4,726  |      | 4,183  |
| Service charges on deposit accounts                    |                                                  | 5,806  |      | 5,750  |
| Other service charges and fees                         |                                                  | 3,106  |      | 2,966  |
| Gain on sales of loans                                 |                                                  | 2,215  |      | 6,260  |
| Security gains, net                                    |                                                  | 40     |      |        |
| Other                                                  |                                                  | 2,061  |      | 2,235  |
| Total other income                                     | \$                                               | 29,998 | \$   | 32,424 |
| <b>Other expense:</b>                                  |                                                  |        |      |        |
| Salaries and wages                                     | \$                                               | 24,827 | \$   | 26,341 |
| Employee benefits                                      |                                                  | 5,279  |      | 6,174  |
| Net occupancy expense of premises                      |                                                  | 4,298  |      | 4,285  |
| Furniture and equipment expense                        |                                                  | 2,357  |      | 2,476  |
| Data processing                                        |                                                  | 5,499  |      | 5,207  |
| Amortization of intangible assets                      |                                                  | 1,480  |      | 1,566  |
| Regulatory expense                                     |                                                  | 1,056  |      | 1,263  |
| OREO expense                                           |                                                  | 71     |      | 601    |
| Other                                                  |                                                  | 8,574  |      | 9,455  |
| Total other expense                                    | \$                                               | 53,441 | \$   | 57,368 |
| Income before income taxes                             | \$                                               | 24,135 | \$   | 20,884 |
| Income taxes                                           |                                                  | 8,063  |      | 7,011  |
| <b>Net income</b>                                      | \$                                               | 16,072 | \$   | 13,873 |
| Preferred stock dividends                              |                                                  | 363    |      | 1,816  |
| <b>Net income available to common stockholders</b>     | \$                                               | 15,709 | \$   | 12,057 |
| <b>Basic earnings per common share</b>                 | \$                                               | 0.18   | \$   | 0.14   |
| <b>Diluted earnings per common share</b>               | \$                                               | 0.18   | \$   | 0.14   |
| <b>Dividends declared per share of common stock</b>    | \$                                               | 0.09   | \$   | 0.04   |

See accompanying notes to unaudited consolidated financial statements.

## FIRST BUSEY CORPORATION and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30, 2014 and 2013

(Unaudited)

|                                                        | 2014                                             |        | 2013 |        |
|--------------------------------------------------------|--------------------------------------------------|--------|------|--------|
|                                                        | (dollars in thousands, except per share amounts) |        |      |        |
| <b>Interest income:</b>                                |                                                  |        |      |        |
| Interest and fees on loans                             | \$                                               | 22,437 | \$   | 23,200 |
| Interest and dividends on investment securities:       |                                                  |        |      |        |
| Taxable interest income                                |                                                  | 3,395  |      | 3,283  |
| Non-taxable interest income                            |                                                  | 824    |      | 977    |
| Total interest income                                  | \$                                               | 26,656 | \$   | 27,460 |
| <b>Interest expense:</b>                               |                                                  |        |      |        |
| Deposits                                               | \$                                               | 1,306  | \$   | 1,824  |
| Securities sold under agreements to repurchase         |                                                  | 35     |      | 40     |
| Short-term borrowings                                  |                                                  |        |      | 6      |
| Long-term debt                                         |                                                  |        |      | 44     |
| Junior subordinated debt owed to unconsolidated trusts |                                                  | 294    |      | 301    |
| Total interest expense                                 | \$                                               | 1,635  | \$   | 2,215  |
| Net interest income                                    | \$                                               | 25,021 | \$   | 25,245 |
| Provision for loan losses                              |                                                  | 1,000  |      | 2,000  |
| Net interest income after provision for loan losses    | \$                                               | 24,021 | \$   | 23,245 |
| <b>Other income:</b>                                   |                                                  |        |      |        |
| Trust fees                                             | \$                                               | 5,080  | \$   | 4,713  |
| Commissions and brokers' fees, net                     |                                                  | 676    |      | 569    |
| Remittance processing                                  |                                                  | 2,376  |      | 2,085  |
| Service charges on deposit accounts                    |                                                  | 3,111  |      | 3,023  |
| Other service charges and fees                         |                                                  | 1,618  |      | 1,527  |
| Gain on sales of loans                                 |                                                  | 1,234  |      | 2,763  |
| Security losses, net                                   |                                                  | (3)    |      |        |
| Other                                                  |                                                  | 920    |      | 1,103  |
| Total other income                                     | \$                                               | 15,012 | \$   | 15,783 |
| <b>Other expense:</b>                                  |                                                  |        |      |        |
| Salaries and wages                                     | \$                                               | 12,578 | \$   | 12,781 |
| Employee benefits                                      |                                                  | 2,386  |      | 2,947  |
| Net occupancy expense of premises                      |                                                  | 2,055  |      | 2,103  |
| Furniture and equipment expense                        |                                                  | 1,153  |      | 1,222  |
| Data processing                                        |                                                  | 2,687  |      | 2,568  |
| Amortization of intangible assets                      |                                                  | 733    |      | 783    |
| Regulatory expense                                     |                                                  | 501    |      | 617    |
| OREO expense                                           |                                                  | 51     |      | 58     |
| Other                                                  |                                                  | 4,679  |      | 4,722  |
| Total other expense                                    | \$                                               | 26,823 | \$   | 27,801 |
| Income before income taxes                             | \$                                               | 12,210 | \$   | 11,227 |
| Income taxes                                           |                                                  | 4,025  |      | 3,787  |
| <b>Net income</b>                                      | \$                                               | 8,185  | \$   | 7,440  |
| Preferred stock dividends                              |                                                  | 181    |      | 908    |
| <b>Net income available to common stockholders</b>     | \$                                               | 8,004  | \$   | 6,532  |
| <b>Basic earnings per common share</b>                 | \$                                               | 0.09   | \$   | 0.08   |
| <b>Diluted earnings per common share</b>               | \$                                               | 0.09   | \$   | 0.08   |
| <b>Dividends declared per share of common stock</b>    | \$                                               | 0.05   | \$   | 0.04   |

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**For the Three and Six Months Ended June 30, 2014 and 2013**
**(Unaudited)**

|                                                                             | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                             | <b>2014</b>                            | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
|                                                                             | <b>(dollars in thousands)</b>          |             |                                      |             |
| Net income                                                                  | \$ 8,185                               | \$ 7,440    | \$ 16,072                            | \$ 13,873   |
| Other comprehensive income (loss), before tax:                              |                                        |             |                                      |             |
| Unrealized net gains (losses) on securities:                                |                                        |             |                                      |             |
| Unrealized net holding gains (losses) arising during period                 | \$ 4,222                               | \$ (11,737) | \$ 5,079                             | \$ (13,217) |
| Reclassification adjustment for losses (gains) included in net income       | 3                                      |             | (40)                                 |             |
| Other comprehensive income (loss), before tax                               | \$ 4,225                               | \$ (11,737) | \$ 5,039                             | \$ (13,217) |
| Income tax expense (benefit) related to items of other comprehensive income | 1,740                                  | (4,833)     | 2,075                                | (5,442)     |
| Other comprehensive income (loss), net of tax                               | \$ 2,485                               | \$ (6,904)  | \$ 2,964                             | \$ (7,775)  |
| Comprehensive income                                                        | \$ 10,670                              | \$ 536      | \$ 19,036                            | \$ 6,098    |

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**For the Six Months Ended June 30, 2014 and 2013**

**(Unaudited)**

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

|                                                                                                      | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock | Total      |
|------------------------------------------------------------------------------------------------------|--------------------|-----------------|----------------------------------|------------------------|-------------------------------------------------|-------------------|------------|
| Balance,<br>December 31, 2012                                                                        | \$ 72,664          | \$ 88           | \$ 594,411                       | \$ (240,321)           | \$ 13,542                                       | \$ (31,587)       | \$ 408,797 |
| Net income                                                                                           |                    |                 |                                  | 13,873                 |                                                 |                   | 13,873     |
| Other<br>comprehensive loss                                                                          |                    |                 |                                  |                        | (7,775)                                         |                   | (7,775)    |
| Issuance of<br>treasury stock for<br>employee stock<br>purchase plan                                 |                    |                 | (167)                            |                        |                                                 | 222               | 55         |
| Net issuance of<br>treasury stock for<br>restricted stock unit<br>vesting and related<br>tax benefit |                    |                 | (282)                            |                        |                                                 | 249               | (33)       |
| Cash dividends<br>common stock at<br>\$0.04 per share                                                |                    |                 |                                  | (3,466)                |                                                 |                   | (3,466)    |
| Stock dividend<br>equivalents<br>restricted stock<br>units at \$0.04 per<br>share                    |                    |                 | 17                               | (17)                   |                                                 |                   |            |
| Stock-based<br>employee<br>compensation                                                              |                    |                 | 395                              |                        |                                                 |                   | 395        |
| Preferred stock<br>dividends                                                                         |                    |                 |                                  | (1,816)                |                                                 |                   | (1,816)    |
| Balance, June 30,<br>2013                                                                            | \$ 72,664          | \$ 88           | \$ 594,374                       | \$ (231,747)           | \$ 5,767                                        | \$ (31,116)       | \$ 410,030 |
| Balance,<br>December 31, 2013                                                                        | \$ 72,664          | \$ 88           | \$ 593,144                       | \$ (225,722)           | \$ 4,456                                        | \$ (29,266)       | \$ 415,364 |
| Net income                                                                                           |                    |                 |                                  | 16,072                 |                                                 |                   | 16,072     |
| Other<br>comprehensive<br>income                                                                     |                    |                 |                                  |                        | 2,964                                           |                   | 2,964      |
|                                                                                                      |                    |                 | (195)                            |                        |                                                 | 280               | 85         |

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|                                                                                          |    |        |    |    |    |         |    |           |    |       |     |          |    |         |
|------------------------------------------------------------------------------------------|----|--------|----|----|----|---------|----|-----------|----|-------|-----|----------|----|---------|
| Issuance of treasury stock for employee stock purchase plan                              |    |        |    |    |    |         |    |           |    |       |     |          |    |         |
| Net issuance of treasury stock for restricted stock unit vesting and related tax benefit |    |        |    |    |    | (229)   |    |           |    |       | 208 |          |    | (21)    |
| Cash dividends common stock at \$0.09 per share                                          |    |        |    |    |    |         |    | (7,813)   |    |       |     |          |    | (7,813) |
| Stock dividend equivalents restricted stock units at \$0.09 per share                    |    |        |    |    |    | 80      |    | (80)      |    |       |     |          |    |         |
| Stock-based employee compensation                                                        |    |        |    |    |    | 479     |    |           |    |       |     |          |    | 479     |
| Preferred stock dividends                                                                |    |        |    |    |    |         |    | (363)     |    |       |     |          |    | (363)   |
| Balance, June 30, 2014                                                                   | \$ | 72,664 | \$ | 88 | \$ | 593,279 | \$ | (217,906) | \$ | 7,420 | \$  | (28,778) | \$ | 426,767 |

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Six Months Ended June 30, 2014 and 2013**

**(Unaudited)**

|                                                                                                  | 2014                   | 2013               |
|--------------------------------------------------------------------------------------------------|------------------------|--------------------|
|                                                                                                  | (dollars in thousands) |                    |
| <b>Cash Flows from Operating Activities</b>                                                      |                        |                    |
| Net income                                                                                       | \$ 16,072              | \$ 13,873          |
| Adjustments to reconcile net income to net cash provided by operating activities:                |                        |                    |
| Stock-based and non-cash compensation                                                            | 479                    | 395                |
| Depreciation and amortization                                                                    | 4,292                  | 4,364              |
| Provision for loan losses                                                                        | 2,000                  | 4,000              |
| Provision for deferred income taxes                                                              | 7,415                  | 4,636              |
| Amortization of security premiums and discounts, net                                             | 3,697                  | 4,737              |
| Net security gains                                                                               | (40)                   |                    |
| Gain on sales of loans, net                                                                      | (2,215)                | (6,260)            |
| Net gain on disposition of premises and equipment                                                | (7)                    |                    |
| Net (gains) loss on sales of OREO properties                                                     | (132)                  | 18                 |
| Increase in cash surrender value of bank owned life insurance                                    | (78)                   | (686)              |
| Change in assets and liabilities:                                                                |                        |                    |
| Decrease in other assets                                                                         | 123                    | 8,465              |
| Decrease in other liabilities                                                                    | (3,943)                | (395)              |
| Decrease in interest payable                                                                     | (107)                  | (308)              |
| (Increase) decrease in income taxes receivable                                                   | (1,505)                | 1,128              |
| <b>Net cash provided by operating activities before activities for loans originated for sale</b> | <b>\$ 26,051</b>       | <b>\$ 33,967</b>   |
| Loans originated for sale                                                                        | (107,686)              | (273,889)          |
| Proceeds from sales of loans                                                                     | 103,455                | 279,278            |
| <b>Net cash provided by operating activities</b>                                                 | <b>\$ 21,820</b>       | <b>\$ 39,356</b>   |
| <b>Cash Flows from Investing Activities</b>                                                      |                        |                    |
| Proceeds from sales of securities classified available for sale                                  | 62,245                 | 5,267              |
| Proceeds from maturities of securities classified available for sale                             | 105,049                | 99,224             |
| Proceeds from maturities of securities classified held to maturity                               | 3                      |                    |
| Purchase of securities classified available for sale                                             | (164,707)              | (42,513)           |
| Purchase of securities classified held to maturity                                               | (1,026)                |                    |
| Net increase in loans                                                                            | (25,070)               | (89,301)           |
| Proceeds from disposition of premises and equipment                                              | 7                      | 601                |
| Proceeds from sale of OREO properties                                                            | 1,252                  | 1,479              |
| Purchases of premises and equipment                                                              | (1,548)                | (1,710)            |
| <b>Net cash used in investing activities</b>                                                     | <b>\$ (23,795)</b>     | <b>\$ (26,953)</b> |

(continued on next page)

**FIRST BUSEY CORPORATION and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)****For the Six Months Ended June 30, 2014 and 2013****(Unaudited)**

|                                                                                             | 2014                   | 2013         |
|---------------------------------------------------------------------------------------------|------------------------|--------------|
|                                                                                             | (dollars in thousands) |              |
| <b>Cash Flows from Financing Activities</b>                                                 |                        |              |
| Net decrease in certificates of deposit                                                     | \$ (44,246)            | \$ (59,617)  |
| Net increase (decrease) in demand, money market and savings deposits                        | 36,636                 | (49,739)     |
| Cash dividends paid                                                                         | (8,176)                | (5,282)      |
| Value of shares surrendered upon vesting of restricted stock units to cover tax obligations | (25)                   | (30)         |
| Principal payments on long-term debt                                                        |                        | (7,000)      |
| Net (decrease) increase in securities sold under agreements to repurchase                   | (31,785)               | 9,214        |
| <b>Net cash used in financing activities</b>                                                | \$ (47,596)            | \$ (112,454) |
| <b>Net decrease in cash and due from banks</b>                                              | \$ (49,571)            | \$ (100,051) |
| <b>Cash and due from banks, beginning</b>                                                   | \$ 231,603             | \$ 351,255   |
| <b>Cash and due from banks, ending</b>                                                      | \$ 182,032             | \$ 251,204   |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION****Cash payments for:**

|              |          |          |
|--------------|----------|----------|
| Interest     | \$ 3,436 | \$ 5,056 |
| Income taxes | \$ 2,563 | \$ 1,110 |

**Non-cash investing and financing activities:**

|                                                   |        |        |
|---------------------------------------------------|--------|--------|
| Other real estate acquired in settlement of loans | \$ 609 | \$ 663 |
|---------------------------------------------------|--------|--------|

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, 2013.

The accompanying Consolidated Balance Sheet as of December 31, 2013, 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 as of the dates and for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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

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

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended June 30, 2014 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

**Note 2: Recent Accounting Pronouncements**

*ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* ASU 2014-04 clarifies when an in-substance repossession or foreclosure occurs and requires interim and annual disclosures. The new authoritative guidance will be for reporting periods after January 1, 2015 and is not expected to have a significant impact on the Company's financial statements.

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

**Note 3: Securities**

Securities are classified as held to maturity when First Busey has the ability and management has the positive intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income.

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

|                                                          | Amortized<br>Cost | Gross<br>Unrealized<br>Gains<br>(dollars in thousands) | Gross<br>Unrealized<br>Losses<br>(dollars in thousands) | Fair<br>Value |
|----------------------------------------------------------|-------------------|--------------------------------------------------------|---------------------------------------------------------|---------------|
| <b>June 30, 2014:</b>                                    |                   |                                                        |                                                         |               |
| <b>Available for sale</b>                                |                   |                                                        |                                                         |               |
| U.S. Treasury securities                                 | \$ 50,402         | \$ 416                                                 | \$ (4)                                                  | \$ 50,814     |
| Obligations of U.S. government corporations and agencies | 203,592           | 1,882                                                  | (111)                                                   | 205,363       |
| Obligations of states and political subdivisions         | 240,458           | 3,682                                                  | (732)                                                   | 243,408       |
| Residential mortgage-backed securities                   | 254,387           | 5,325                                                  | (141)                                                   | 259,571       |
| Corporate debt securities                                | 73,968            | 599                                                    | (36)                                                    | 74,531        |
| Total debt securities                                    | 822,807           | 11,904                                                 | (1,024)                                                 | 833,687       |
| Mutual funds and other equity securities                 | 4,691             | 1,734                                                  |                                                         | 6,425         |
| Total                                                    | \$ 827,498        | \$ 13,638                                              | \$ (1,024)                                              | \$ 840,112    |
| <b>Held to maturity</b>                                  |                   |                                                        |                                                         |               |
| Obligations of states and political subdivisions         | \$ 828            | \$ 20                                                  | \$                                                      | \$ 848        |
| Commercial mortgage-backed securities                    | 1,022             | 23                                                     |                                                         | 1,045         |
| Total                                                    | \$ 1,850          | \$ 43                                                  | \$                                                      | \$ 1,893      |
|                                                          | Amortized<br>Cost | Gross<br>Unrealized<br>Gains<br>(dollars in thousands) | Gross<br>Unrealized<br>Losses<br>(dollars in thousands) | Fair<br>Value |
| <b>December 31, 2013:</b>                                |                   |                                                        |                                                         |               |
| <b>Available for sale</b>                                |                   |                                                        |                                                         |               |
| U.S. Treasury securities                                 | \$ 102,463        | \$ 244                                                 | \$ (67)                                                 | \$ 102,640    |
| Obligations of U.S. government corporations and agencies | 254,998           | 2,741                                                  | (328)                                                   | 257,411       |
| Obligations of states and political subdivisions         | 272,077           | 2,887                                                  | (2,812)                                                 | 272,152       |
| Residential mortgage-backed securities                   | 174,699           | 3,571                                                  | (535)                                                   | 177,735       |
| Corporate debt securities                                | 25,384            | 155                                                    | (33)                                                    | 25,506        |
| Total debt securities                                    | 829,621           | 9,598                                                  | (3,775)                                                 | 835,444       |
| Mutual funds and other equity securities                 | 4,114             | 1,752                                                  |                                                         | 5,866         |
| Total                                                    | \$ 833,735        | \$ 11,350                                              | \$ (3,775)                                              | \$ 841,310    |

**Held to maturity**

|                                                  |    |     |    |   |    |     |    |     |
|--------------------------------------------------|----|-----|----|---|----|-----|----|-----|
| Obligations of states and political subdivisions | \$ | 834 | \$ | 1 | \$ | (4) | \$ | 831 |
| Total                                            | \$ | 834 | \$ | 1 | \$ | (4) | \$ | 831 |

The amortized cost and fair value of debt securities available for sale and held to maturity as of June 30, 2014, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying the residential mortgage-backed securities may be called or prepaid without penalties; therefore, actual maturities could differ from the contractual maturities. All residential mortgage-backed securities were issued by U.S. government agencies and corporations.

|                                        | Available for sale     |               | Held to maturity  |               |
|----------------------------------------|------------------------|---------------|-------------------|---------------|
|                                        | Amortized<br>Cost      | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                                        | (dollars in thousands) |               |                   |               |
| Due in one year or less                | \$ 132,344             | \$ 133,270    | \$                | \$            |
| Due after one year through five years  | 360,784                | 363,964       | 317               | 321           |
| Due after five years through ten years | 165,306                | 169,573       | 1,533             | 1,572         |
| Due after ten years                    | 164,373                | 166,880       |                   |               |
| Total                                  | \$ 822,807             | \$ 833,687    | \$ 1,850          | \$ 1,893      |

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

|                             | Three Months Ended June 30, |      | Six Months Ended June 30, |      |
|-----------------------------|-----------------------------|------|---------------------------|------|
|                             | 2014                        | 2013 | 2014                      | 2013 |
|                             | (dollars in thousands)      |      |                           |      |
| Gross security gains        | \$                          | \$   | \$ 57                     | \$   |
| Gross security (losses)     | (3)                         |      | (17)                      |      |
| Net security (losses) gains | \$ (3)                      | \$   | \$ 40                     | \$   |

The tax provision for the net realized gains and losses was insignificant for the three and six months ended June 30, 2014 and there was no tax provision related to net realized gains and losses for the three and six months ended June 30, 2013.

Investment securities with carrying amounts of \$401.2 million and \$428.7 million on June 30, 2014 and December 31, 2013, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

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

|                                                                | Continuous unrealized<br>losses existing for less than<br>12 months, gross |                      | Continuous unrealized<br>losses existing for greater<br>than 12 months, gross |                      | Total, gross  |                      |
|----------------------------------------------------------------|----------------------------------------------------------------------------|----------------------|-------------------------------------------------------------------------------|----------------------|---------------|----------------------|
|                                                                | Fair<br>Value                                                              | Unrealized<br>Losses | Fair<br>Value                                                                 | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| (dollars in thousands)                                         |                                                                            |                      |                                                                               |                      |               |                      |
| <u>June 30, 2014:</u>                                          |                                                                            |                      |                                                                               |                      |               |                      |
| <b>Available for sale</b>                                      |                                                                            |                      |                                                                               |                      |               |                      |
| U.S. Treasury securities                                       | \$                                                                         | \$                   | \$                                                                            | 364                  | \$            | 4                    |
| Obligations of U.S.<br>government corporations and<br>agencies |                                                                            | 55                   |                                                                               | 1                    |               | 25,204               |
| Obligations of states and<br>political subdivisions            |                                                                            | 11,951               |                                                                               | 24                   |               | 732                  |
| Residential mortgage-backed<br>securities                      |                                                                            | 15,219               |                                                                               | 66                   |               | 141                  |
| Corporate debt securities                                      |                                                                            | 5,724                |                                                                               | 31                   |               | 36                   |
| Total temporarily impaired<br>securities                       | \$                                                                         | 32,949               | \$                                                                            | 122                  | \$            | 1,024                |
|                                                                |                                                                            |                      |                                                                               |                      |               |                      |
|                                                                | Continuous unrealized<br>losses existing for less than<br>12 months, gross |                      | Continuous unrealized<br>losses existing for greater<br>than 12 months, gross |                      | Total, gross  |                      |
|                                                                | Fair<br>Value                                                              | Unrealized<br>Losses | Fair<br>Value                                                                 | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| (dollars in thousands)                                         |                                                                            |                      |                                                                               |                      |               |                      |
| <u>December 31, 2013:</u>                                      |                                                                            |                      |                                                                               |                      |               |                      |
| <b>Available for sale</b>                                      |                                                                            |                      |                                                                               |                      |               |                      |
| U.S. Treasury securities                                       | \$                                                                         | 25,830               | \$                                                                            | 67                   | \$            | 67                   |
| Obligations of U.S.<br>government corporations and<br>agencies |                                                                            | 25,946               |                                                                               | 328                  |               | 328                  |
| Obligations of states and<br>political subdivisions            |                                                                            | 92,703               |                                                                               | 2,518                |               | 2,812                |
| Residential mortgage-backed<br>securities                      |                                                                            | 53,543               |                                                                               | 535                  |               | 535                  |
| Corporate debt securities                                      |                                                                            | 1,614                |                                                                               | 33                   |               | 33                   |
| Total temporarily impaired<br>securities                       | \$                                                                         | 199,636              | \$                                                                            | 3,481                | \$            | 3,775                |
| <b>Held to maturity</b>                                        |                                                                            |                      |                                                                               |                      |               |                      |
| Obligations of states and<br>political subdivisions            | \$                                                                         | 597                  | \$                                                                            | 4                    | \$            | 4                    |
| Total temporarily impaired<br>securities                       | \$                                                                         | 597                  | \$                                                                            | 4                    | \$            | 4                    |

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



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The total number of securities in the investment portfolio in an unrealized loss position as of June 30, 2014 was 139, and represented a loss of 0.9% of the aggregate carrying value. Based upon a review of unrealized loss circumstances, the unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of receiving the contractual cash flows. The Company does not intend to sell the securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2014.

The Company had available for sale obligations of state and political subdivisions with a fair value of \$243.4 million and \$272.2 million as of June 30, 2014 and December 31, 2013, respectively. In addition, the Company had held to maturity obligations of state and political subdivisions totaling \$0.9 million and \$0.8 million at June 30, 2014 and December 31, 2013, respectively.

As of June 30, 2014, the Company's obligations of state and political subdivisions portfolios were comprised of \$200.8 million of general obligation bonds and \$43.5 million of revenue bonds issued by 248 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 24 states (including the District of Columbia), including seven states in which the aggregate fair value exceeded \$5.0 million. The Company held investments in revenue bonds in 19 states, including two states where the aggregate fair value exceeded \$5.0 million.

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

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

## June 30, 2014:

| U.S. State                      | Number of Issuers | Amortized Cost | Fair Value | Average Exposure Per Issuer (Fair Value) |
|---------------------------------|-------------------|----------------|------------|------------------------------------------|
| (dollars in thousands)          |                   |                |            |                                          |
| Illinois                        | 75                | \$ 68,783      | \$ 70,404  | \$ 939                                   |
| Wisconsin                       | 41                | 39,080         | 39,420     | 961                                      |
| Michigan                        | 34                | 31,048         | 31,452     | 925                                      |
| Pennsylvania                    | 11                | 13,318         | 13,391     | 1,217                                    |
| Ohio                            | 10                | 10,953         | 10,935     | 1,094                                    |
| Texas                           | 7                 | 7,438          | 7,400      | 1,057                                    |
| Iowa                            | 3                 | 6,121          | 6,188      | 2,063                                    |
| Other                           | 25                | 20,946         | 21,568     | 863                                      |
| Total general obligations bonds | 206               | \$ 197,687     | \$ 200,758 | \$ 975                                   |



December 31, 2013:

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

The general obligation bonds are diversified across many issuers, with \$3.5 million and \$5.0 million being the largest exposure to a single issuer at June 30, 2014 and December 31, 2013, respectively. Accordingly, as of June 30, 2014 and December 31, 2013, the Company did not hold general obligation bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company's stockholders' equity. Of the general obligation bonds in the Company's portfolio, 97.0% had been rated by at least one nationally recognized statistical rating organization and 3.0% were unrated, based on the fair value as of June 30, 2014. Of the general obligation bonds in the Company's portfolio, 96.4% had been rated by at least one nationally recognized statistical rating organization and 3.6% were unrated, based on the fair value as of December 31, 2013.

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

June 30, 2014:

| U.S. State             | Number of Issuers | Amortized Cost | Fair Value | Average Exposure Per Issuer (Fair Value) |
|------------------------|-------------------|----------------|------------|------------------------------------------|
| (dollars in thousands) |                   |                |            |                                          |
| Illinois               | 4                 | \$ 7,002       | \$ 6,920   | \$ 1,730                                 |
| Indiana                | 11                | 13,307         | 13,274     | 1,207                                    |
| Other                  | 27                | 23,290         | 23,304     | 863                                      |
| Total revenue bonds    | 42                | \$ 43,599      | \$ 43,498  | \$ 1,036                                 |

December 31, 2013:

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

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

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

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

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

#### Note 4: Loans

Geographic distributions of loans were as follows:

|                                | June 30, 2014          |            |            |    |           |
|--------------------------------|------------------------|------------|------------|----|-----------|
|                                | Illinois               | Florida    | Indiana    |    | Total     |
|                                | (dollars in thousands) |            |            |    |           |
| Commercial                     | \$ 510,576             | \$ 21,429  | \$ 21,585  | \$ | 553,590   |
| Commercial real estate         | 826,098                | 165,622    | 110,005    |    | 1,101,725 |
| Real estate construction       | 50,606                 | 15,782     | 16,048     |    | 82,436    |
| Retail real estate             | 462,173                | 101,466    | 12,987     |    | 576,626   |
| Retail other                   | 9,034                  | 574        | 83         |    | 9,691     |
| Total                          | \$ 1,858,487           | \$ 304,873 | \$ 160,708 | \$ | 2,324,068 |
| Less held for sale(1)          |                        |            |            |    | 20,286    |
|                                |                        |            |            | \$ | 2,303,782 |
| Less allowance for loan losses |                        |            |            |    | 47,428    |
| Net loans                      |                        |            |            | \$ | 2,256,354 |

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

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

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

Net deferred loan origination costs included in the tables above were \$0.4 million as of June 30, 2014 and insignificant as of December 31, 2013.

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

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

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



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

The Company's lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction loans, retail real estate loans, and other retail loans. A description of each of the lending areas can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The significant majority of the lending activity occurs in the Company's Illinois and Indiana markets, with the remainder in the Florida market. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

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

- *Grades 1, 3, 6-* These grades include loans which are all considered strong credits, with grade 1 being investment or near investment grade. A grade 3 loan is comprised of borrowers that exhibit credit fundamentals that exceed industry standards and loan policy guidelines. A grade 6 loan is comprised of borrowers that exhibit acceptable credit fundamentals.
- *Grade 7-* This grade includes loans on management's Watch List and is intended to be utilized on a temporary basis for a pass grade borrower where a significant risk-modifying action is anticipated in the near future.
- *Grade 8-* This grade is for Other Assets Specially Mentioned loans that have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date.
- *Grade 9-* This grade includes Substandard loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Assets so classified must have well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- *Grade 10-* This grade includes Doubtful loans that have all the characteristics of a substandard loan with additional factors that make collection in full highly questionable and improbable. Such loans are placed on non-accrual status and may be dependent on collateral having a value that is difficult to determine.

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

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Loans in the highest grades, represented by grades 1, 3, 6 and 7, totaled \$2.2 billion at June 30, 2014 compared to \$2.1 billion at December 31, 2013. Loans in the lowest grades, represented by grades 8, 9 and 10, totaled \$142.0 million at June 30, 2014, a decline of \$19.9 million from \$161.9 million at December 31, 2013.

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

|                          |                             | June 30, 2014     |            |            |            |             |  |
|--------------------------|-----------------------------|-------------------|------------|------------|------------|-------------|--|
|                          | Weighted Avg.<br>Risk Grade | Grades<br>1,3,6   | Grade<br>7 | Grade<br>8 | Grade<br>9 | Grade<br>10 |  |
| (dollars in thousands)   |                             |                   |            |            |            |             |  |
| Illinois/Indiana         |                             |                   |            |            |            |             |  |
| Commercial               | 4.75                        | \$ 465,289        | \$ 42,331  | \$ 10,147  | \$ 12,883  | \$ 1,511    |  |
| Commercial real estate   | 5.59                        | 812,923           | 72,414     | 27,484     | 21,186     | 2,096       |  |
| Real estate construction | 6.57                        | 33,363            | 15,706     | 13,173     | 1,271      | 3,141       |  |
| Retail real estate       | 3.38                        | 433,426           | 9,965      | 4,781      | 3,866      | 1,290       |  |
| Retail other             | 2.46                        | 9,043             | 63         | 10         | 1          |             |  |
| Total Illinois/Indiana   |                             | \$ 1,754,044      | \$ 140,479 | \$ 55,595  | \$ 39,207  | \$ 8,038    |  |
| Florida                  |                             |                   |            |            |            |             |  |
| Commercial               | 5.94                        | \$ 17,627         | \$ 49      | \$ 3,142   | \$ 611     | \$          |  |
| Commercial real estate   | 6.02                        | 116,555           | 27,898     | 4,834      | 13,732     | 2,603       |  |
| Real estate construction | 6.18                        | 14,330            |            | 632        | 820        |             |  |
| Retail real estate       | 3.81                        | 76,708            | 11,963     | 9,704      | 2,500      | 591         |  |
| Retail other             | 1.51                        | 574               |            |            |            |             |  |
| Total Florida            |                             | \$ 225,794        | \$ 39,910  | \$ 18,312  | \$ 17,663  | \$ 3,194    |  |
| Total                    |                             | \$ 1,979,838      | \$ 180,389 | \$ 73,907  | \$ 56,870  | \$ 11,232   |  |
|                          |                             |                   |            |            |            |             |  |
|                          |                             | December 31, 2013 |            |            |            |             |  |
|                          | Weighted Avg.<br>Risk Grade | Grades<br>1,3,6   | Grade<br>7 | Grade<br>8 | Grade<br>9 | Grade<br>10 |  |
| (dollars in thousands)   |                             |                   |            |            |            |             |  |
| Illinois/Indiana         |                             |                   |            |            |            |             |  |
| Commercial               | 4.66                        | \$ 487,587        | \$ 46,992  | \$ 15,986  | \$ 8,536   | \$ 975      |  |
| Commercial real estate   | 5.55                        | 799,117           | 79,371     | 19,327     | 29,606     | 4,597       |  |
| Real estate construction | 7.11                        | 21,585            | 16,376     | 11,920     | 7,686      | 3,862       |  |
| Retail real estate       | 3.53                        | 393,299           | 9,285      | 5,392      | 4,408      | 3,936       |  |
| Retail other             | 2.64                        | 8,451             | 60         |            | 4          |             |  |
| Total Illinois/Indiana   |                             | \$ 1,710,039      | \$ 152,084 | \$ 52,625  | \$ 50,240  | \$ 13,370   |  |
| Florida                  |                             |                   |            |            |            |             |  |
| Commercial               | 5.89                        | \$ 16,460         | \$ 174     | \$ 3,218   | \$ 684     | \$          |  |
| Commercial real estate   | 6.02                        | 116,741           | 16,470     | 11,250     | 12,721     | 3,073       |  |
| Real estate construction | 6.64                        | 7,886             | 7,961      | 743        | 836        |             |  |
| Retail real estate       | 3.85                        | 77,116            | 12,052     | 9,417      | 3,050      | 721         |  |
| Retail other             | 1.72                        | 552               |            |            |            |             |  |
| Total Florida            |                             | \$ 218,755        | \$ 36,657  | \$ 24,628  | \$ 17,291  | \$ 3,794    |  |
| Total                    |                             | \$ 1,928,794      | \$ 188,741 | \$ 77,253  | \$ 67,531  | \$ 17,164   |  |

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



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

|                          | June 30, 2014 |                                              |         |                        | Non-accrual<br>Loans |
|--------------------------|---------------|----------------------------------------------|---------|------------------------|----------------------|
|                          | 30-59 Days    | Loans past due, still accruing<br>60-89 Days | 90+Days | (dollars in thousands) |                      |
| Illinois/Indiana         |               |                                              |         |                        |                      |
| Commercial               | \$ 468        | \$ 10                                        | \$ 235  | \$                     | 1,511                |
| Commercial real estate   | 184           |                                              |         |                        | 2,096                |
| Real estate construction | 83            |                                              |         |                        | 3,141                |
| Retail real estate       | 842           | 9                                            |         |                        | 1,290                |
| Retail other             | 20            |                                              |         |                        |                      |
| Total Illinois/Indiana   | \$ 1,597      | \$ 19                                        | \$ 235  | \$                     | 8,038                |
| Florida                  |               |                                              |         |                        |                      |
| Commercial               | \$            | \$                                           | \$      | \$                     |                      |
| Commercial real estate   |               |                                              |         |                        | 2,603                |
| Real estate construction |               |                                              |         |                        |                      |
| Retail real estate       | 150           |                                              |         |                        | 591                  |
| Retail other             |               |                                              |         |                        |                      |
| Total Florida            | \$ 150        | \$                                           | \$      | \$                     | 3,194                |
| Total                    | \$ 1,747      | \$ 19                                        | \$ 235  | \$                     | 11,232               |

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

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled principal and interest payments when due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The following loans are assessed for impairment by the Company: loans 60 days or more past due and over \$0.25 million, loans graded 8 over \$0.5 million and loans graded 9 or 10.

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

The gross interest income that would have been recorded in the three and six months ended June 30, 2014 if impaired loans had been current in accordance with their original terms was \$0.3 million and \$0.6 million, respectively. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three and six months ended June 30, 2014.

The Company's loan portfolio includes certain loans that have been modified in a troubled debt restructuring (TDR), where concessions have been granted to borrowers who have experienced financial difficulties. The Company will restructure loans for its customers who appear to be able to meet the terms of their loan over the long term, but who may be unable to meet the terms of the loan in the near term due to individual circumstances.

The Company considers the customer's past performance, previous and current credit history, the individual circumstances surrounding the current difficulties and the customer's plan to meet the terms of the loan in the future prior to restructuring the terms of the loan. Generally, all five primary areas of lending are restructured through short-term interest rate relief, short-term principal payment relief, short-term principal and interest payment relief, or forbearance (debt forgiveness). Once a restructured loan has gone 90+ days past due or is placed on non-accrual status, it is included in the non-performing loan totals. A summary of restructured loans as of June 30, 2014 and December 31, 2013 is as follows:

|                                   | June 30,<br>2014       | December 31,<br>2013 |
|-----------------------------------|------------------------|----------------------|
|                                   | (dollars in thousands) |                      |
| Restructured loans:               |                        |                      |
| In compliance with modified terms | \$ 11,270              | \$ 11,511            |
| 30 - 89 days past due             |                        | 380                  |
| Included in non-performing loans  | 2,882                  | 5,919                |
| Total                             | \$ 14,152              | \$ 17,810            |

All TDRs are considered to be impaired for purposes of assessing the adequacy of the allowance for loan losses and for financial reporting purposes. When the Company modifies a loan in a TDR, it evaluates any possible impairment similar to other impaired loans based on present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the Company determines that the value of the TDR is less than the recorded investment in the loan, impairment is recognized through an allowance estimate in the period of the modification and in periods subsequent to the modification.

Performing loans classified as TDRs during the three and six months ended June 30, 2014 were insignificant.

Performing loans classified as TDRs during the three and six months ended June 30, 2013 consisted of one commercial real estate modification in Florida for short-term interest rate relief, with a recorded investment of \$0.1 million.

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

There were no TDRs that were classified as non-performing and had payment defaults (a default occurs when a loan is 90 days or more past due or transferred to non-accrual) during the three and six months ended June 30, 2014.

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

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

|                          | June 30, 2014                                 |                                                |                                                                       |                                 |                      |                                   |  |
|--------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------|---------------------------------|----------------------|-----------------------------------|--|
|                          | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>with No<br>Allowance | Recorded<br>Investment<br>with<br>Allowance<br>(dollars in thousands) | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment |  |
| Illinois/Indiana         |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Commercial               | \$ 3,731                                      | \$ 1,998                                       | \$ 827                                                                | \$ 2,825                        | \$ 710               | \$ 2,750                          |  |
| Commercial real estate   | 6,045                                         | 1,510                                          | 3,079                                                                 | 4,589                           | 1,674                | 7,650                             |  |
| Real estate construction | 3,142                                         | 1,609                                          | 1,533                                                                 | 3,142                           | 465                  | 4,164                             |  |
| Retail real estate       | 2,576                                         | 2,227                                          | 152                                                                   | 2,379                           | 54                   | 4,213                             |  |
| Retail other             |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Total Illinois/Indiana   | \$ 15,494                                     | \$ 7,344                                       | \$ 5,591                                                              | \$ 12,935                       | \$ 2,903             | \$ 18,777                         |  |
| Florida                  |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Commercial               | \$                                            | \$                                             | \$                                                                    | \$                              | \$                   | \$ 2                              |  |
| Commercial real estate   | 4,849                                         | 3,465                                          | 1,298                                                                 | 4,763                           | 394                  | 6,104                             |  |
| Real estate construction | 410                                           | 410                                            |                                                                       | 410                             |                      | 420                               |  |
| Retail real estate       | 10,037                                        | 8,753                                          | 537                                                                   | 9,290                           | 337                  | 9,633                             |  |
| Retail other             | 9                                             | 9                                              |                                                                       | 9                               |                      | 2                                 |  |
| Total Florida            | \$ 15,305                                     | \$ 12,637                                      | \$ 1,835                                                              | \$ 14,472                       | \$ 731               | \$ 16,161                         |  |
| Total                    | \$ 30,799                                     | \$ 19,981                                      | \$ 7,426                                                              | \$ 27,407                       | \$ 3,634             | \$ 34,938                         |  |

|                          | December 31, 2013                             |                                                |                                                                       |                                 |                      |                                   |  |
|--------------------------|-----------------------------------------------|------------------------------------------------|-----------------------------------------------------------------------|---------------------------------|----------------------|-----------------------------------|--|
|                          | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>with No<br>Allowance | Recorded<br>Investment<br>with<br>Allowance<br>(dollars in thousands) | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment |  |
| <b>Illinois/Indiana</b>  |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Commercial               | \$ 2,825                                      | \$ 1,684                                       | \$ 602                                                                | \$ 2,286                        | \$ 485               | \$ 4,169                          |  |
| Commercial real estate   | 8,866                                         | 3,671                                          | 3,740                                                                 | 7,411                           | 1,977                | 10,335                            |  |
| Real estate construction | 4,932                                         | 2,292                                          | 1,570                                                                 | 3,862                           | 468                  | 5,889                             |  |
| Retail real estate       | 5,583                                         | 3,267                                          | 2,010                                                                 | 5,277                           | 604                  | 5,296                             |  |
| Retail other             |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Total Illinois/Indiana   | \$ 22,206                                     | \$ 10,914                                      | \$ 7,922                                                              | \$ 18,836                       | \$ 3,534             | \$ 25,689                         |  |
| <b>Florida</b>           |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Commercial               | \$                                            | \$                                             | \$                                                                    | \$                              | \$                   | \$                                |  |
| Commercial real estate   | 7,108                                         | 3,946                                          | 1,319                                                                 | 5,265                           | 416                  | 6,662                             |  |
| Real estate construction | 417                                           | 417                                            |                                                                       | 417                             |                      | 1,294                             |  |
| Retail real estate       | 10,346                                        | 9,005                                          | 537                                                                   | 9,542                           | 337                  | 11,079                            |  |
| Retail other             |                                               |                                                |                                                                       |                                 |                      |                                   |  |
| Total Florida            | \$ 17,871                                     | \$ 13,368                                      | \$ 1,856                                                              | \$ 15,224                       | \$ 753               | \$ 19,035                         |  |
| Total                    | \$ 40,077                                     | \$ 24,282                                      | \$ 9,778                                                              | \$ 34,060                       | \$ 4,287             | \$ 44,724                         |  |

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

#### *Allowance for Loan Losses*

The allowance for loan losses represents an estimate of the amount of losses believed inherent in the Company's loan portfolio at the balance sheet date. The allowance for loan losses is evaluated geographically, by class of loans. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, the Company believes the allowance methodology is consistent with prior periods and the balance was adequate to cover the estimated losses in the Company's loan portfolio at June 30, 2014 and December 31, 2013.

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

The Company's component for adversely graded loans attempts to quantify the additional risk of loss inherent in the grade 8 and grade 9 portfolios. The grade 9 portfolio has an additional allocation placed on those loans determined by a one-year charge-off percentage for the respective loan type/geography. The minimum additional reserve on a grade 9 loan was 3.00% as of June 30, 2014 and December 31, 2013, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. As of June 30, 2014, the Company believed this minimum reserve remained adequate.

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Grade 8 loans have an additional allocation placed on them determined by the trend difference of the respective loan type/geography's rolling 12- and 20-quarter historical loss trends. If the rolling 12-quarter average is higher (more current information) than the rolling 20-quarter average, the Company adds the additional amount to the allocation. The minimum additional amount for grade 8 loans was 1.00% as of June 30, 2014 and December 31, 2013, based upon a review of the differences between the rolling 12- and 20-quarter historical loss averages by region. As of June 30, 2014, the Company believed this minimum additional amount remained adequate.

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

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

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

During the second quarter of 2014, the Company did not adjust any qualitative factors. During the first quarter of 2014, the Company adjusted Illinois/Indiana and Florida qualitative factors relating to Net Charge-Off Trend. Adjustments to increase this qualitative factor were made in the first quarter of 2014 to offset decreasing quantitative factors and represent management's evaluation of risk. The Company will continue to monitor its qualitative factors on a quarterly basis.

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

| As of and for the Three Months Ended June 30, 2014 |            |                           |                             |                       |              |       |         |
|----------------------------------------------------|------------|---------------------------|-----------------------------|-----------------------|--------------|-------|---------|
|                                                    | Commercial | Commercial<br>Real Estate | Real Estate<br>Construction | Retail Real<br>Estate | Retail Other | Total |         |
| (dollars in thousands)                             |            |                           |                             |                       |              |       |         |
| Illinois/Indiana                                   |            |                           |                             |                       |              |       |         |
| Beginning balance                                  | \$ 7,917   | \$ 15,498                 | \$ 2,461                    | \$ 9,192              | \$ 213       | \$    | 35,281  |
| Provision for loan loss                            | (221)      | 797                       | 935                         | 1,981                 | 70           |       | 3,562   |
| Charged-off                                        | (30)       | (889)                     | (657)                       | (416)                 | (91)         |       | (2,083) |
| Recoveries                                         | 29         | 20                        | 37                          | 45                    | 46           |       | 177     |
| Ending Balance                                     | \$ 7,695   | \$ 15,426                 | \$ 2,776                    | \$ 10,802             | \$ 238       | \$    | 36,937  |
| Florida                                            |            |                           |                             |                       |              |       |         |
| Beginning balance                                  | \$ 2,291   | \$ 5,729                  | \$ 233                      | \$ 3,888              | \$ 4         | \$    | 12,145  |
| Provision for loan loss                            | (524)      | (753)                     | (1,036)                     | (242)                 | (7)          |       | (2,562) |
| Charged-off                                        |            |                           |                             | (117)                 |              |       | (117)   |
| Recoveries                                         | 15         |                           | 978                         | 25                    | 7            |       | 1,025   |
| Ending Balance                                     | \$ 1,782   | \$ 4,976                  | \$ 175                      | \$ 3,554              | \$ 4         | \$    | 10,491  |

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As of and for the Six Months Ended June 30, 2014

|                         | Commercial | Commercial Real Estate | Real Estate Construction | Retail Real Estate | Retail Other | Total     |
|-------------------------|------------|------------------------|--------------------------|--------------------|--------------|-----------|
|                         |            |                        |                          |                    |              |           |
| (dollars in thousands)  |            |                        |                          |                    |              |           |
| Illinois/Indiana        |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 8,452   | \$ 16,379              | \$ 2,540                 | \$ 6,862           | \$ 216       | \$ 34,449 |
| Provision for loan loss | (152)      | 180                    | 382                      | 5,526              | 112          | 6,048     |
| Charged-off             | (704)      | (1,173)                | (657)                    | (1,691)            | (192)        | (4,417)   |
| Recoveries              | 99         | 40                     | 511                      | 105                | 102          | 857       |
| Ending Balance          | \$ 7,695   | \$ 15,426              | \$ 2,776                 | \$ 10,802          | \$ 238       | \$ 36,937 |
| Florida                 |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 1,926   | \$ 5,733               | \$ 1,168                 | \$ 4,287           | \$ 4         | \$ 13,118 |
| Provision for loan loss | (268)      | (1,028)                | (1,988)                  | (751)              | (13)         | (4,048)   |
| Charged-off             | (20)       |                        |                          | (137)              |              | (157)     |
| Recoveries              | 144        | 271                    | 995                      | 155                | 13           | 1,578     |
| Ending Balance          | \$ 1,782   | \$ 4,976               | \$ 175                   | \$ 3,554           | \$ 4         | \$ 10,491 |

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

|                         | Commercial | Commercial Real Estate | Real Estate Construction | Retail Real Estate | Retail Other | Total     |
|-------------------------|------------|------------------------|--------------------------|--------------------|--------------|-----------|
|                         |            |                        |                          |                    |              |           |
| (dollars in thousands)  |            |                        |                          |                    |              |           |
| Illinois/Indiana        |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 6,667   | \$ 14,791              | \$ 3,446                 | \$ 7,462           | \$ 358       | \$ 32,724 |
| Provision for loan loss | 1,016      | (1,177)                | 62                       | 972                | (29)         | 844       |
| Charged-off             | (239)      | (63)                   | (1,071)                  | (350)              | (151)        | (1,874)   |
| Recoveries              | 70         | 172                    | 77                       | 172                | 62           | 553       |
| Ending Balance          | \$ 7,514   | \$ 13,723              | \$ 2,514                 | \$ 8,256           | \$ 240       | \$ 32,247 |
| Florida                 |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 1,485   | \$ 6,106               | \$ 2,326                 | \$ 5,128           | \$ 4         | \$ 15,049 |
| Provision for loan loss | 12         | 1,582                  | 329                      | (763)              | (4)          | 1,156     |
| Charged-off             |            |                        | (22)                     | (381)              | (3)          | (406)     |
| Recoveries              | 8          | (32)                   | 60                       | 403                | 6            | 445       |
| Ending Balance          | \$ 1,505   | \$ 7,656               | \$ 2,693                 | \$ 4,387           | \$ 3         | \$ 16,244 |

As of and for the Six Months Ended June 30, 2013

|                         | Commercial | Commercial Real Estate | Real Estate Construction | Retail Real Estate | Retail Other | Total     |
|-------------------------|------------|------------------------|--------------------------|--------------------|--------------|-----------|
|                         |            |                        |                          |                    |              |           |
| (dollars in thousands)  |            |                        |                          |                    |              |           |
| Illinois/Indiana        |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 6,597   | \$ 15,023              | \$ 2,527                 | \$ 8,110           | \$ 322       | \$ 32,579 |
| Provision for loan loss | 1,254      | (687)                  | 799                      | 568                | (35)         | 1,899     |
| Charged-off             | (422)      | (910)                  | (1,071)                  | (622)              | (287)        | (3,312)   |
| Recoveries              | 85         | 297                    | 259                      | 200                | 240          | 1,081     |
| Ending Balance          | \$ 7,514   | \$ 13,723              | \$ 2,514                 | \$ 8,256           | \$ 240       | \$ 32,247 |
| Florida                 |            |                        |                          |                    |              |           |
| Beginning balance       | \$ 1,437   | \$ 6,062               | \$ 2,315                 | \$ 5,614           | \$ 5         | \$ 15,433 |
| Provision for loan loss | 35         | 1,852                  | 358                      | (134)              | (10)         | 2,101     |
| Charged-off             |            | (245)                  | (57)                     | (1,559)            | (5)          | (1,866)   |
| Recoveries              | 33         | (13)                   | 77                       | 466                | 13           | 576       |
| Ending Balance          | \$ 1,505   | \$ 7,656               | \$ 2,693                 | \$ 4,387           | \$ 3         | \$ 16,244 |

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

|                                             |            | As of June 30, 2014    |                          |                    |              |       |           |
|---------------------------------------------|------------|------------------------|--------------------------|--------------------|--------------|-------|-----------|
|                                             | Commercial | Commercial Real Estate | Real Estate Construction | Retail Real Estate | Retail Other | Total |           |
| (dollars in thousands)                      |            |                        |                          |                    |              |       |           |
| Illinois/Indiana                            |            |                        |                          |                    |              |       |           |
| Amount allocated to:                        |            |                        |                          |                    |              |       |           |
| Loans individually evaluated for impairment | \$ 710     | \$ 1,674               | \$ 465                   | \$ 54              | \$           | \$    | 2,903     |
| Loans collectively evaluated for impairment | 6,985      | 13,752                 | 2,311                    | 10,748             | 238          |       | 34,034    |
| Ending Balance                              | \$ 7,695   | \$ 15,426              | \$ 2,776                 | \$ 10,802          | \$ 238       | \$    | 36,937    |
| Loans:                                      |            |                        |                          |                    |              |       |           |
| Loans individually evaluated for impairment | \$ 2,825   | \$ 4,589               | \$ 3,142                 | \$ 2,379           | \$           | \$    | 12,935    |
| Loans collectively evaluated for impairment | 529,336    | 931,514                | 63,512                   | 452,495            | 9,117        |       | 1,985,974 |
| Ending Balance                              | \$ 532,161 | \$ 936,103             | \$ 66,654                | \$ 454,874         | \$ 9,117     | \$    | 1,998,909 |
| Florida                                     |            |                        |                          |                    |              |       |           |
| Amount allocated to:                        |            |                        |                          |                    |              |       |           |
| Loans individually evaluated for impairment | \$         | \$ 394                 | \$                       | \$ 337             | \$           | \$    | 731       |
| Loans collectively evaluated for impairment | 1,782      | 4,582                  | 175                      | 3,217              | 4            |       | 9,760     |
| Ending Balance                              | \$ 1,782   | \$ 4,976               | \$ 175                   | \$ 3,554           | \$ 4         | \$    | 10,491    |
| Loans:                                      |            |                        |                          |                    |              |       |           |
| Loans individually evaluated for impairment | \$         | \$ 4,763               | \$ 410                   | \$ 9,290           | \$ 9         | \$    | 14,472    |
| Loans collectively evaluated for impairment | 21,429     | 160,859                | 15,372                   | 92,176             | 565          |       | 290,401   |
| Ending Balance                              | \$ 21,429  | \$ 165,622             | \$ 15,782                | \$ 101,466         | \$ 574       | \$    | 304,873   |

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

**Note 5: Securities Sold Under Agreements to Repurchase**

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either daily or within one year from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company's safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The following table sets forth the distribution of securities sold under agreements to repurchase and weighted average interest rates:

|                                                             | June 30, 2014 | December 31, 2013 |
|-------------------------------------------------------------|---------------|-------------------|
| (dollars in thousands)                                      |               |                   |
| Balance at end of period                                    | \$ 140,563    | \$ 172,348        |
| Weighted average interest rate at end of period             | 0.10%         | 0.13%             |
| Maximum outstanding at any month end in year-to-date period | \$ 141,642    | \$ 172,348        |
| Average daily balance for the year-to-date period           | \$ 132,948    | \$ 137,777        |
| Weighted average interest rate during period (1)            | 0.11%         | 0.14%             |

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

**Note 6: Earnings Per Common Share**

Earnings per common share have been computed as follows:

|                                                                                                                                           | Three Months Ended<br>June 30,        |          | Six Months Ended<br>June 30, |           |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|----------|------------------------------|-----------|
|                                                                                                                                           | 2014                                  | 2013     | 2014                         | 2013      |
|                                                                                                                                           | (in thousands, except per share data) |          |                              |           |
| Net income available to common stockholders                                                                                               | \$ 8,004                              | \$ 6,532 | \$ 15,709                    | \$ 12,057 |
| Shares:                                                                                                                                   |                                       |          |                              |           |
| Weighted average common shares outstanding                                                                                                | 86,895                                | 86,730   | 86,880                       | 86,717    |
| Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method | 368                                   |          | 365                          |           |
| Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation                                        | 87,263                                | 86,730   | 87,245                       | 86,717    |
| Basic earnings per common share                                                                                                           | \$ 0.09                               | \$ 0.08  | \$ 0.18                      | \$ 0.14   |
| Diluted earnings per common share                                                                                                         | \$ 0.09                               | \$ 0.08  | \$ 0.18                      | \$ 0.14   |

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

Diluted earnings per share are determined by dividing net income available to common stockholders for the period by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options, warrants and vesting of restricted stock units and use of proceeds to purchase treasury stock at the average market price for the period. If the average market price for the period is less than the strike price of a stock option or warrant, that option or warrant is considered anti-dilutive and is excluded from the calculation of common stock equivalents. If the total employee proceeds of a restricted stock unit exceed the average market price for the period, that restricted stock unit is considered anti-dilutive and is excluded from the calculation of common stock equivalents. At June 30, 2014, 476,230 outstanding options, 573,833 warrants, and 353,976 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents. At June 30, 2013, 701,029 outstanding options, 573,833 warrants, and 713,450 restricted stock units were anti-dilutive and excluded from the calculation of common stock equivalents.

**Note 7: Stock-based Compensation**

The Company grants share-based compensation awards to its employees and members of its board of directors as provided for under the Company's 2010 Equity Incentive Plan. The Company currently grants share-based compensation in the form of restricted stock units ( RSUs ) and deferred stock units ( DSUs ). The Company also has outstanding stock options granted prior to 2011. Under the terms of the Company's 2010 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises and grants of RSUs and DSUs from its inventory of treasury stock. As of June 30, 2014, the Company held 1,456,105 shares in treasury, with 895,655 additional shares authorized for repurchase under its stock repurchase plan. The repurchase plan has no expiration date and expires when the Company has repurchased all of

the remaining authorized shares.

A description of the 2010 Equity Incentive Plan can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Company's 2010 Equity Incentive Plan is designed to encourage ownership of its common stock by its employees and directors, to provide additional incentive for them to promote the success of its business, and to attract and retain talented personnel. All of the Company's employees and directors, and those of its subsidiaries, are eligible to receive awards under the plan.

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

|                                  | Shares  | Weighted-Average<br>Exercise<br>Price | Weighted-Average<br>Remaining Contractual<br>Term |
|----------------------------------|---------|---------------------------------------|---------------------------------------------------|
| Outstanding at beginning of year | 696,379 | \$ 17.22                              |                                                   |
| Granted                          |         |                                       |                                                   |
| Exercised                        |         |                                       |                                                   |
| Forfeited                        | 167,649 | 19.72                                 |                                                   |
| Outstanding at end of period     | 528,730 | \$ 16.43                              | 2.18                                              |
| Exercisable at end of period     | 528,730 | \$ 16.43                              | 2.18                                              |

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

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

|                                 | Restricted<br>Stock<br>Units | Director<br>Deferred<br>Stock<br>Units | Total     | Weighted-Average<br>Grant Date<br>Fair Value |
|---------------------------------|------------------------------|----------------------------------------|-----------|----------------------------------------------|
| Non-vested at beginning of year | 919,928                      | 29,054                                 | 948,982   | \$ 4.96                                      |
| Granted                         | 317,976                      | 36,000                                 | 353,976   | 5.84                                         |
| Dividend Equivalents Earned     | 14,745                       | 437                                    | 15,182    | 5.53                                         |
| Vested                          | (15,728)                     | (29,491)                               | (45,219)  | 5.02                                         |
| Forfeited                       | (44,109)                     |                                        | (44,109)  | 4.73                                         |
| Non-vested at end of period     | 1,192,812                    | 36,000                                 | 1,228,812 | \$ 5.23                                      |
| Outstanding at end of period    | 1,192,812                    | 124,655                                | 1,317,467 | \$ 5.22                                      |

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

On June 23, 2014, under the terms of the 2010 Equity Incentive Plan, the Company granted 317,976 RSUs to members of management. As the stock price on the grant date of June 23, 2014 was \$5.84, total compensation cost to be recognized is \$1.9 million. This cost will be recognized over a period of two to five years. Subsequent to each requisite service period, the awards will vest 100%.

Also, on June 23, 2014, under the terms of the 2010 Equity Incentive Plan, the Company granted 36,000 DSUs to directors. As the stock price on the grant date of June 23, 2014 was \$5.84, total compensation cost to be recognized is \$0.2 million. This cost will be recognized over the requisite service period of one year from the date of grant or the next annual shareholders' meeting; whichever is earlier. Subsequent to the requisite service period, the awards will vest 100%. These DSUs generally are subject to the same terms as RSUs under the Company's 2010 Equity Incentive Plan, except that, following vesting, settlement occurs within 30 days following the earlier of separation from the Board or a change in control of the Company. Subsequent to vesting and prior to delivery, these units will continue to earn dividend equivalents.

The Company recognized \$0.3 million and \$0.1 million of compensation expense related to non-vested stock units for the three months ended June 30, 2014 and 2013, respectively. The Company recognized \$0.5 million and \$0.4 million of compensation expense related to non-vested stock units for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, there was \$4.3 million of total unrecognized compensation cost related to these non-vested stock units. This cost is expected to be recognized over a period of 3.9 years.

**Note 8: Income Taxes**

At June 30, 2014, the Company was under examination by the Illinois Department of Revenue for the Company's 2011 income tax filing.

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

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

*Credit Commitments and Contingencies*

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

The Company's exposure to credit loss is represented by the contractual amount of those commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the contractual amount of the Company's exposure to off-balance-sheet risk relating to the Company's commitments to extend credit and standby letters of credit follows:

|                                                                     | June 30, 2014          | December 31, 2013 |
|---------------------------------------------------------------------|------------------------|-------------------|
|                                                                     | (dollars in thousands) |                   |
| Financial instruments whose contract amounts represent credit risk: |                        |                   |
| Commitments to extend credit                                        | \$ 581,156             | \$ 527,614        |
| Standby letters of credit                                           | 19,566                 | 10,155            |

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts 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

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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 June 30, 2014 and December 31, 2013, no amounts were recorded as liabilities for the Company's potential obligations under these guarantees.

**Note 10: Reportable Segments and Related Information**

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

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

The segment financial information provided below has been derived from the internal accounting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

|                                     | Goodwill                    |                      | Total Assets              |                      |
|-------------------------------------|-----------------------------|----------------------|---------------------------|----------------------|
|                                     | June 30,<br>2014            | December 31,<br>2013 | June 30,<br>2014          | December 31,<br>2013 |
|                                     | (dollars in thousands)      |                      | (dollars in thousands)    |                      |
| <u>Goodwill &amp; Total Assets:</u> |                             |                      |                           |                      |
| Busey Bank                          | \$                          | \$                   | \$ 3,427,699              | \$ 3,456,555         |
| FirsTech                            | 8,992                       | 8,992                | 27,885                    | 27,253               |
| Busey Wealth Management             | 11,694                      | 11,694               | 29,896                    | 28,548               |
| All Other                           |                             |                      | 21,969                    | 27,219               |
| Total                               | \$ 20,686                   | \$ 20,686            | \$ 3,507,449              | \$ 3,539,575         |
|                                     |                             |                      |                           |                      |
|                                     | Three Months Ended June 30, |                      | Six Months Ended June 30, |                      |
|                                     | 2014                        | 2013                 | 2014                      | 2013                 |
|                                     | (dollars in thousands)      |                      | (dollars in thousands)    |                      |
| <u>Interest Income:</u>             |                             |                      |                           |                      |
| Busey Bank                          | \$ 26,573                   | \$ 27,390            | \$ 52,754                 | \$ 54,430            |
| FirsTech                            | 13                          | 13                   | 25                        | 26                   |
| Busey Wealth Management             | 76                          | 57                   | 140                       | 117                  |
| All Other                           | (6)                         |                      | (12)                      | 2                    |
| Total interest income               | \$ 26,656                   | \$ 27,460            | \$ 52,907                 | \$ 54,575            |
|                                     |                             |                      |                           |                      |
| <u>Interest Expense:</u>            |                             |                      |                           |                      |
| Busey Bank                          | \$ 1,350                    | \$ 1,917             | \$ 2,760                  | \$ 4,149             |
| FirsTech                            |                             |                      |                           |                      |
| Busey Wealth Management             |                             |                      |                           |                      |
| All Other                           | 285                         | 298                  | 569                       | 598                  |
| Total interest expense              | \$ 1,635                    | \$ 2,215             | \$ 3,329                  | \$ 4,747             |
|                                     |                             |                      |                           |                      |
| <u>Other Income:</u>                |                             |                      |                           |                      |
| Busey Bank                          | \$ 8,252                    | \$ 9,598             | \$ 16,788                 | \$ 20,095            |
| FirsTech                            | 2,409                       | 2,149                | 4,796                     | 4,278                |
| Busey Wealth Management             | 5,110                       | 4,643                | 9,651                     | 8,746                |
| All Other                           | (759)                       | (607)                | (1,237)                   | (695)                |
| Total other income                  | \$ 15,012                   | \$ 15,783            | \$ 29,998                 | \$ 32,424            |
|                                     |                             |                      |                           |                      |
| <u>Net Income:</u>                  |                             |                      |                           |                      |
| Busey Bank                          | \$ 7,436                    | \$ 6,487             | \$ 14,715                 | \$ 12,280            |
| FirsTech                            | 326                         | 286                  | 635                       | 548                  |
| Busey Wealth Management             | 1,401                       | 1,133                | 2,403                     | 1,953                |
| All Other                           | (978)                       | (466)                | (1,681)                   | (908)                |
| Total net income                    | \$ 8,185                    | \$ 7,440             | \$ 16,072                 | \$ 13,873            |

**Note 11: Derivative Financial Instruments**

Starting in the first quarter of 2014, the Company began entering into loan agreements that settled in non-U.S. dollar denominations. The foreign loan balance, gross, translated into U.S. dollars as of June 30, 2014 was \$1.5 million.

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

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

|                                        | June 30, 2014          | December 31, 2013 |
|----------------------------------------|------------------------|-------------------|
|                                        | (dollars in thousands) |                   |
| Forward contracts foreign exchange:    |                        |                   |
| Notional amount                        | \$ 4,439               | \$                |
| Other assets estimated fair value      | 5                      |                   |
| Other liabilities estimated fair value | 22                     |                   |

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

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

As of June 30, 2014, the Company had no other interest rate futures, forwards, swaps or option contracts, or other financial instruments with similar characteristics with the exception of rate lock commitments on mortgage loans to be held for sale.

**Note 12: Fair Value Measurements**

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

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

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

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

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

There were no transfers between levels during the quarter ended June 30, 2014.

In general, fair value is based upon quoted market prices, when available. If such quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect, among other things, counterparty credit quality and the company's creditworthiness as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

*Securities Available for Sale.* Securities classified as available for sale are reported at fair value utilizing level 1 and level 2 measurements. For mutual funds and other equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date and have been classified as level 1 in the ASC 820 fair value hierarchy. For all other securities, the Company obtains fair value measurements from an independent pricing service. The independent pricing service evaluations are based on market data. The independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed income securities do not trade on a daily basis, the independent pricing service evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, the independent pricing service uses model processes, such as the Option Adjusted Spread model, to assess interest rate impact and develop prepayment scenarios. The models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

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

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

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

|                                                          | Level 1<br>Inputs | Level 2<br>Inputs<br>(dollars in thousands) | Level 3<br>Inputs | Total<br>Fair Value |
|----------------------------------------------------------|-------------------|---------------------------------------------|-------------------|---------------------|
| <b>June 30, 2014</b>                                     |                   |                                             |                   |                     |
| <b>Securities available for sale</b>                     |                   |                                             |                   |                     |
| U.S. Treasury securities                                 | \$                | \$ 50,814                                   | \$                | \$ 50,814           |
| Obligations of U.S. government corporations and agencies |                   | 205,363                                     |                   | 205,363             |
| Obligations of states and political subdivisions         |                   | 243,408                                     |                   | 243,408             |
| Residential mortgage-backed securities                   |                   | 259,571                                     |                   | 259,571             |
| Corporate debt securities                                |                   | 74,531                                      |                   | 74,531              |
| Mutual funds and other equity securities                 | 6,425             |                                             |                   | 6,425               |
| <b>Derivative assets</b>                                 |                   |                                             |                   |                     |
| Foreign currency forward contracts                       |                   | 5                                           |                   | 5                   |
| <b>Derivative liabilities</b>                            |                   |                                             |                   |                     |
| Foreign currency forward contracts                       |                   | 22                                          |                   | 22                  |
| <b>December 31, 2013</b>                                 |                   |                                             |                   |                     |
| <b>Securities available for sale</b>                     |                   |                                             |                   |                     |
| U.S. Treasury securities                                 | \$                | \$ 102,640                                  | \$                | \$ 102,640          |
| Obligations of U.S. government corporations and agencies |                   | 257,411                                     |                   | 257,411             |
| Obligations of states and political subdivisions         |                   | 272,152                                     |                   | 272,152             |
| Residential mortgage-backed securities                   |                   | 177,735                                     |                   | 177,735             |
| Corporate debt securities                                |                   | 25,506                                      |                   | 25,506              |
| Mutual funds and other equity securities                 | 5,866             |                                             |                   | 5,866               |

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

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

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

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

|                                 | Level 1<br>Inputs      | Level 2<br>Inputs | Level 3<br>Inputs | Total<br>Fair Value |
|---------------------------------|------------------------|-------------------|-------------------|---------------------|
|                                 | (dollars in thousands) |                   |                   |                     |
| <b><u>June 30, 2014</u></b>     |                        |                   |                   |                     |
| Impaired loans                  | \$                     | \$                | \$ 3,792          | \$ 3,792            |
| OREO                            |                        |                   | 1,140             | 1,140               |
| <b><u>December 31, 2013</u></b> |                        |                   |                   |                     |
| Impaired loans                  | \$                     | \$                | \$ 5,491          | \$ 5,491            |
| OREO                            |                        |                   | 1,134             | 1,134               |

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

|                          | Fair Value<br>Estimate | Quantitative Information about Level 3 Fair Value Measurements |                       | Range<br>(Weighted Average)  |
|--------------------------|------------------------|----------------------------------------------------------------|-----------------------|------------------------------|
|                          | (dollars in thousands) | Valuation<br>Techniques                                        | Unobservable<br>Input |                              |
| <b>June 30, 2014</b>     |                        |                                                                |                       |                              |
| Impaired loans           | \$ 3,792               | Appraisal of collateral                                        | Appraisal adjustments | -2.6% to -100.0%<br>(-44.7%) |
| OREO                     | 1,140                  | Appraisal of collateral                                        | Appraisal adjustments | -6.6% to -100.0%<br>(-47.9%) |
| <b>December 31, 2013</b> |                        |                                                                |                       |                              |
| Impaired loans           | \$ 5,491               | Appraisal of collateral                                        | Appraisal adjustments | -0.4% to -100.0%<br>(-36.0%) |
| OREO                     | 1,134                  | Appraisal of collateral                                        | Appraisal adjustments | -6.6% to -100.0%<br>(-47.9%) |

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

|                                                        | June 30, 2014          |              | December 31, 2013 |              |
|--------------------------------------------------------|------------------------|--------------|-------------------|--------------|
|                                                        | Carrying Amount        | Fair Value   | Carrying Amount   | Fair Value   |
|                                                        | (dollars in thousands) |              |                   |              |
| Financial assets:                                      |                        |              |                   |              |
| Level 2 inputs:                                        |                        |              |                   |              |
| Cash and due from banks                                | \$ 182,032             | \$ 182,032   | \$ 231,603        | \$ 231,603   |
| Securities held to maturity                            | 1,850                  | 1,893        | 834               | 831          |
| Loans held for sale                                    | 20,286                 | 20,672       | 13,840            | 14,103       |
| Accrued interest receivable                            | 11,031                 | 11,031       | 11,148            | 11,148       |
| Level 3 inputs:                                        |                        |              |                   |              |
| Loans, net                                             | 2,256,354              | 2,257,618    | 2,233,893         | 2,236,841    |
| Financial liabilities:                                 |                        |              |                   |              |
| Level 2 inputs:                                        |                        |              |                   |              |
| Deposits                                               | \$ 2,861,528           | \$ 2,862,772 | \$ 2,869,138      | \$ 2,870,870 |
| Securities sold under agreements to repurchase         | 140,563                | 140,563      | 172,348           | 172,348      |
| Junior subordinated debt owed to unconsolidated trusts | 55,000                 | 55,000       | 55,000            | 55,000       |
| Accrued interest payable                               | 566                    | 566          | 673               | 673          |

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

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is management's discussion and analysis of the financial condition of First Busey Corporation and its subsidiaries (referred to herein as First Busey, Company, we, or our ) at June 30, 2014 (unaudited), as compared with March 31, 2014 (unaudited), December 31, 2013 and June 30, 2013 (unaudited), and the results of operations for the three and six months ended June 30, 2014 and 2013 (unaudited), and the three months ended March 31, 2014 (unaudited) when applicable. Management's discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this quarterly report, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**EXECUTIVE SUMMARY**

*Operating Results*

First Busey's net income for the second quarter of 2014 was \$8.2 million and net income available to common stockholders was \$8.0 million, or \$0.09 per fully-diluted common share. Net income was higher than the second quarter of 2013, when the Company reported net income of \$7.4 million and net income available to common stockholders of \$6.5 million, or \$0.08 per fully-diluted common share. The Company reported net income of \$7.9 million and net income available to common stockholders of \$7.7 million, or \$0.09 per fully-diluted common share, for the first quarter of 2014.

The Company's year-to-date net income through June 30, 2014 was \$16.1 million and net income available to common stockholders was \$15.7 million, or \$0.18 per fully-diluted common share, compared to net income of \$13.9 million and net income available to common stockholders of \$12.1 million, or \$0.14 per fully-diluted common share, for the comparable period of 2013. Continued strong financial performance enabled the Company to raise its dividend paid in July 2014 to common stockholders by 25% to \$0.05 per common share from \$0.04 per common share paid in July 2013.

Growth in quarterly and year-to-date net income available to common stockholders over the same periods in 2013 was led by a reduction in preferred dividends, improved credit costs, and lower operating expenses as the Company remains focused on cost control and productivity. Robust loan growth during 2013 pushed Small Business Lending Fund (SBLF) qualified credits above certain thresholds required to meaningfully reduce costs of the preferred stock dividend beginning in 2014. Dividends paid on the preferred stock totaled \$0.4 million for the first six months of 2014 compared to \$1.8 million for the comparable period of 2013.

Provision for loan loss of \$1.0 million in the second quarter of 2014 was unchanged from the \$1.0 million provision in the first quarter of 2014 but decreased from \$2.0 million in the second quarter of 2013. For the first six months of 2014, the provision for loan loss was \$2.0 million, compared to \$4.0 million for the same period of 2013, as the Company's continued commitment to improving asset quality and building balance sheet strength continues to yield positive results.

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Busey Wealth Management's net income of \$1.4 million for the second quarter of 2014 rose from \$1.0 million for the first quarter of 2014 and \$1.1 million for the second quarter of 2013. Busey Wealth Management's net income for the first six months of 2014 was \$2.4 million as compared to \$2.0 million for the first six months of 2013. Assets under care increased to \$5.1 billion as of June 30, 2014 compared to \$4.5 billion at June 30, 2013. FirstTech's net income of \$0.3 million for the second quarter of 2014 was comparable to the first quarter of 2014 and was up from the second quarter of 2013 by 14.0%. FirstTech's year-to-date net income of \$0.6 million increased from \$0.5 million for the comparable period of 2013, primarily on growth in electronic processing revenues, including online and mobile services.

*Asset Quality*

While much internal focus has been directed toward organic growth, the Company's commitment to credit quality remains strong, as evidenced by another quarter of meaningful progress across a range of credit indicators. As of June 30, 2014, the Company reported non-performing loans of \$11.5 million, which reflected the lowest level in over five years. Net charge-offs for the first six months of 2014 were \$2.1 million compared to \$3.5 million for the same period of 2013. The Company expects these levels to remain relatively stable for the remainder of 2014; however, this remains dependent upon market-specific economic conditions, and specific measures may fluctuate from quarter to quarter. The key metrics are as follows:

**SELECTED FINANCIAL HIGHLIGHTS**

*(dollars in thousands)*

|                                                                | June 30,<br>2014 | As of and for the Three Months Ended<br>March 31,<br>2014 | December 31,<br>2013 | June 30,<br>2013 |
|----------------------------------------------------------------|------------------|-----------------------------------------------------------|----------------------|------------------|
| <b>ASSET QUALITY</b>                                           |                  |                                                           |                      |                  |
| Gross loans(1)                                                 | \$ 2,324,068     | \$ 2,232,632                                              | \$ 2,295,300         | \$ 2,159,098     |
| Commercial loans(2)                                            | 1,737,751        | 1,683,557                                                 | 1,751,740            | 1,580,351        |
| Allowance for loan losses                                      | 47,428           | 47,426                                                    | 47,567               | 48,491           |
| Non-performing loans                                           |                  |                                                           |                      |                  |
| Non-accrual loans                                              | 11,232           | 14,340                                                    | 17,164               | 20,274           |
| Loans 90+ days past due                                        | 235              |                                                           | 195                  | 771              |
| Non-performing loans, segregated by geography                  |                  |                                                           |                      |                  |
| Illinois/ Indiana                                              | 8,273            | 11,175                                                    | 13,565               | 16,030           |
| Florida                                                        | 3,194            | 3,165                                                     | 3,794                | 5,015            |
| Loans 30-89 days past due                                      | 1,766            | 4,005                                                     | 6,114                | 3,683            |
| Other non-performing assets                                    | 1,622            | 1,937                                                     | 2,133                | 2,617            |
| Non-performing assets to total loans and non-performing assets | 0.6%             | 0.7%                                                      | 0.9%                 | 1.1%             |
| Allowance as a percentage of non-performing loans              | 413.6%           | 330.7%                                                    | 274.0%               | 230.4%           |
| Allowance for loan losses to loans                             | 2.0%             | 2.1%                                                      | 2.1%                 | 2.3%             |

(1) Includes loans held for sale.

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

Gross loans at June 30, 2014 increased \$91.4 million from March 31, 2014 following seasonal slowness and extreme winter weather conditions that reduced loan demand in the first quarter of 2014. Gross loans increased to \$2.3 billion at June 30, 2014 from \$2.2 billion at each of March 31, 2014 and June 30, 2013. Commercial loans increased to \$1.7 billion as of June 30, 2014, which represents an increase of 3.2% from March 31, 2014 and 10.0% from June 30, 2013.



*Economic Conditions of Markets*

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

Champaign County is home to the University of Illinois – Urbana/Champaign ( U of I ), the University’s primary campus. U of I has in excess of 43,000 students. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is home to the North American headquarters for Archer Daniels Midland ( ADM ), a Fortune 100 company and one of the largest agricultural processors in the world. ADM’s presence in Macon County supports many derivative businesses in the agricultural processing arena. Additionally, Macon County is home to Millikin University, and its healthcare providers serve a significant role in the market. McLean County is home to State Farm, Country Financial, Illinois State University and Illinois Wesleyan University. State Farm, a Fortune 100 company, is the largest employer in McLean County, and Country Financial and the universities provide additional stability to a growing area of downstate Illinois. Peoria County is home to Caterpillar, a Fortune 100 company, and Bradley University, in addition to a large healthcare presence serving much of the western portion of downstate Illinois. The institutions noted above, coupled with a large agricultural sector, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

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

Southwest Florida has shown continuing signs of improvement in areas such as job growth and home sales over the last few years. In addition, median sales prices of homes in Florida continue to be on the rise. Although we have seen recent improvement in certain economic indicators, we expect it will take southwest Florida a number of years to return to peak economic strength. In 2013, Hertz Global Holdings, a Fortune 500 company, announced its intent to move its headquarters from New Jersey to southwest Florida, building a new world headquarters in Lee County. It is estimated that Hertz Global Holdings will spend \$50.0 million to build the new headquarters and bring at least 700 jobs to the area.

## OPERATING PERFORMANCE

### *NET INTEREST INCOME*

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

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

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

## AVERAGE BALANCE SHEETS AND INTEREST RATES

## THREE MONTHS ENDED JUNE 30, 2014 AND 2013

|                                                        | Average<br>Balance | 2014<br>Income/<br>Expense | Yield/<br>Rate(3) | Average<br>Balance<br>(dollars in thousands) | 2013<br>Income/<br>Expense | Yield/<br>Rate(3) | Average<br>Volume | Change in income/<br>expense due to(1)<br>Average<br>Yield/Rate | Total<br>Change |
|--------------------------------------------------------|--------------------|----------------------------|-------------------|----------------------------------------------|----------------------------|-------------------|-------------------|-----------------------------------------------------------------|-----------------|
| <b>Assets</b>                                          |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Interest-bearing bank deposits                         | \$ 149,731         | \$ 94                      | 0.25%             | \$ 240,342                                   | \$ 151                     | 0.25%             | \$ (57)           | \$                                                              | \$ (57)         |
| Investment securities                                  |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| U.S. Government obligations                            | 276,938            | 929                        | 1.35%             | 436,963                                      | 1,495                      | 1.37%             | (537)             | (29)                                                            | (566)           |
| Obligations of states and political subdivisions(1)    | 248,202            | 1,646                      | 2.66%             | 289,467                                      | 1,926                      | 2.67%             | (274)             | (6)                                                             | (280)           |
| Other securities                                       | 345,678            | 1,994                      | 2.31%             | 220,404                                      | 1,215                      | 2.21%             | 720               | 59                                                              | 779             |
| Loans(1) (2)                                           | 2,249,786          | 22,501                     | 4.01%             | 2,083,296                                    | 23,267                     | 4.48%             | 1,775             | (2,541)                                                         | (766)           |
| Total interest-earning assets(1)                       | \$ 3,270,335       | \$ 27,164                  | 3.33%             | \$ 3,270,472                                 | \$ 28,054                  | 3.44%             | \$ 1,627          | \$ (2,517)                                                      | \$ (890)        |
| Cash and due from banks                                | 89,641             |                            |                   | 86,258                                       |                            |                   |                   |                                                                 |                 |
| Premises and equipment                                 | 65,075             |                            |                   | 70,209                                       |                            |                   |                   |                                                                 |                 |
| Allowance for loan losses                              | (47,891)           |                            |                   | (48,237)                                     |                            |                   |                   |                                                                 |                 |
| Other assets                                           | 146,268            |                            |                   | 166,000                                      |                            |                   |                   |                                                                 |                 |
| Total Assets                                           | \$ 3,523,428       |                            |                   | \$ 3,544,702                                 |                            |                   |                   |                                                                 |                 |
| <b>Liabilities and Stockholders Equity</b>             |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Interest-bearing transaction deposits                  | \$ 50,550          | \$ 7                       | 0.06%             | \$ 51,587                                    | \$ 8                       | 0.06%             | \$                | \$ (1)                                                          | \$ (1)          |
| Savings deposits                                       | 216,061            | 11                         | 0.02%             | 213,122                                      | 16                         | 0.03%             |                   | (5)                                                             | (5)             |
| Money market deposits                                  | 1,479,808          | 426                        | 0.12%             | 1,467,474                                    | 443                        | 0.12%             | 4                 | (21)                                                            | (17)            |
| Time deposits                                          | 548,777            | 862                        | 0.63%             | 646,105                                      | 1,357                      | 0.84%             | (185)             | (310)                                                           | (495)           |
| Short-term borrowings:                                 |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Repurchase agreements                                  | 134,237            | 35                         | 0.10%             | 133,708                                      | 40                         | 0.12%             |                   | (5)                                                             | (5)             |
| Other                                                  |                    |                            | %                 |                                              | 6                          | %                 |                   | (6)                                                             | (6)             |
| Long-term debt                                         |                    |                            | %                 | 3,230                                        | 44                         | 5.46%             | (22)              | (22)                                                            | (44)            |
| Junior subordinated debt owed to unconsolidated trusts | 55,000             | 294                        | 2.14%             | 55,000                                       | 301                        | 2.20%             |                   | (7)                                                             | (7)             |
| Total interest-bearing liabilities                     | \$ 2,484,433       | \$ 1,635                   | 0.26%             | \$ 2,570,226                                 | \$ 2,215                   | 0.35%             | \$ (203)          | \$ (377)                                                        | \$ (580)        |
| Net interest spread(1)                                 |                    |                            | 3.07%             |                                              |                            | 3.09%             |                   |                                                                 |                 |
| Noninterest-bearing deposits                           | 592,066            |                            |                   | 533,816                                      |                            |                   |                   |                                                                 |                 |
| Other liabilities                                      | 24,855             |                            |                   | 27,714                                       |                            |                   |                   |                                                                 |                 |
| Stockholders equity                                    | 422,074            |                            |                   | 412,946                                      |                            |                   |                   |                                                                 |                 |
| Total Liabilities and Stockholders Equity              | \$ 3,523,428       |                            |                   | \$ 3,544,702                                 |                            |                   |                   |                                                                 |                 |
| Interest income / earning assets(1)                    | \$ 3,270,335       | \$ 27,164                  | 3.33%             | \$ 3,270,472                                 | \$ 28,054                  | 3.44%             |                   |                                                                 |                 |
| Interest expense / earning assets                      | \$ 3,270,335       | \$ 1,635                   | 0.20%             | \$ 3,270,472                                 | \$ 2,215                   | 0.27%             |                   |                                                                 |                 |
| Net interest margin(1)                                 |                    | \$ 25,529                  | 3.13%             |                                              | \$ 25,839                  | 3.17%             | \$ 1,830          | \$ (2,140)                                                      | \$ (310)        |

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

## AVERAGE BALANCE SHEETS AND INTEREST RATES

## SIX MONTHS ENDED JUNE 30, 2014 AND 2013

|                                                        | Average<br>Balance | 2014<br>Income/<br>Expense | Yield/<br>Rate(3) | Average<br>Balance<br>(dollars in thousands) | 2013<br>Income/<br>Expense | Yield/<br>Rate(3) | Average<br>Volume | Change in income/<br>expense due to(1)<br>Average<br>Yield/Rate | Total<br>Change |
|--------------------------------------------------------|--------------------|----------------------------|-------------------|----------------------------------------------|----------------------------|-------------------|-------------------|-----------------------------------------------------------------|-----------------|
| <b>Assets</b>                                          |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Interest-bearing bank deposits                         | \$ 168,390         | \$ 215                     | 0.26%             | \$ 256,188                                   | \$ 313                     | 0.25%             | \$ (112)          | \$ 14                                                           | \$ (98)         |
| Investment securities                                  |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| U.S. Government obligations                            | 305,172            | 1,983                      | 1.31%             | 448,820                                      | 3,117                      | 1.40%             | (944)             | (190)                                                           | (1,134)         |
| Obligations of states and political subdivisions(1)    | 254,878            | 3,361                      | 2.66%             | 284,842                                      | 3,811                      | 2.70%             | (396)             | (54)                                                            | (450)           |
| Other securities                                       | 286,598            | 3,273                      | 2.30%             | 229,374                                      | 2,229                      | 1.96%             | 613               | 431                                                             | 1,044           |
| Loans(1) (2)                                           | 2,242,590          | 45,097                     | 4.06%             | 2,060,332                                    | 46,295                     | 4.53%             | 3,899             | (5,097)                                                         | (1,198)         |
| Total interest-earning assets(1)                       | \$ 3,257,628       | \$ 53,929                  | 3.34%             | \$ 3,279,556                                 | \$ 55,765                  | 3.43%             | \$ 3,060          | \$ (4,896)                                                      | \$ (1,836)      |
| Cash and due from banks                                | 92,854             |                            |                   | 80,544                                       |                            |                   |                   |                                                                 |                 |
| Premises and equipment                                 | 65,412             |                            |                   | 70,573                                       |                            |                   |                   |                                                                 |                 |
| Allowance for loan losses                              | (47,948)           |                            |                   | (48,487)                                     |                            |                   |                   |                                                                 |                 |
| Other assets                                           | 147,667            |                            |                   | 169,495                                      |                            |                   |                   |                                                                 |                 |
| Total Assets                                           | \$ 3,515,613       |                            |                   | \$ 3,551,681                                 |                            |                   |                   |                                                                 |                 |
| <b>Liabilities and Stockholders' Equity</b>            |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Interest-bearing transaction deposits                  | \$ 49,249          | \$ 13                      | 0.05%             | \$ 49,620                                    | \$ 17                      | 0.07%             | \$                | \$ (4)                                                          | \$ (4)          |
| Savings deposits                                       | 214,883            | 21                         | 0.02%             | 211,205                                      | 36                         | 0.03%             | 1                 | (16)                                                            | (15)            |
| Money market deposits                                  | 1,478,424          | 846                        | 0.12%             | 1,470,337                                    | 928                        | 0.13%             | 5                 | (87)                                                            | (82)            |
| Time deposits                                          | 559,075            | 1,788                      | 0.64%             | 661,144                                      | 2,940                      | 0.90%             | (409)             | (743)                                                           | (1,152)         |
| Short-term borrowings:                                 |                    |                            |                   |                                              |                            |                   |                   |                                                                 |                 |
| Repurchase agreements                                  | 132,948            | 74                         | 0.11%             | 131,911                                      | 84                         | 0.13%             | 1                 | (11)                                                            | (10)            |
| Other                                                  |                    |                            | %                 |                                              | 15                         | %                 |                   | (15)                                                            | (15)            |
| Long-term debt                                         |                    |                            | %                 | 4,619                                        | 125                        | 5.46%             | (62)              | (63)                                                            | (125)           |
| Junior subordinated debt owed to unconsolidated trusts | 55,000             | 587                        | 2.15%             | 55,000                                       | 602                        | 2.21%             |                   | (15)                                                            | (15)            |
| Total interest-bearing liabilities                     | \$ 2,489,579       | \$ 3,329                   | 0.27%             | \$ 2,583,836                                 | \$ 4,747                   | 0.37%             | \$ (464)          | \$ (954)                                                        | \$ (1,418)      |
| Net interest spread(1)                                 |                    |                            | 3.07%             |                                              |                            | 3.06%             |                   |                                                                 |                 |
| Noninterest-bearing deposits                           | 580,171            |                            |                   | 528,068                                      |                            |                   |                   |                                                                 |                 |
| Other liabilities                                      | 25,937             |                            |                   | 28,187                                       |                            |                   |                   |                                                                 |                 |
| Stockholders' equity                                   | 419,926            |                            |                   | 411,590                                      |                            |                   |                   |                                                                 |                 |
| Total Liabilities and Stockholders' Equity             | \$ 3,515,613       |                            |                   | \$ 3,551,681                                 |                            |                   |                   |                                                                 |                 |
| Interest income / earning assets(1)                    | \$ 3,257,628       | \$ 53,929                  | 3.34%             | \$ 3,279,556                                 | \$ 55,765                  | 3.43%             |                   |                                                                 |                 |
| Interest expense / earning assets                      | \$ 3,257,628       | \$ 3,329                   | 0.21%             | \$ 3,279,556                                 | \$ 4,747                   | 0.29%             |                   |                                                                 |                 |
| Net interest margin(1)                                 |                    | \$ 50,600                  | 3.13%             |                                              | \$ 51,018                  | 3.14%             | \$ 3,524          | \$ (3,942)                                                      | \$ (418)        |

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

Total average earning assets decreased slightly for the three and six month periods ended June 30, 2014 as compared to the same periods of 2013. Average loans increased \$166.5 million and \$182.3 million for the three and six month periods ended June 30, 2014 compared to the same periods of 2013, respectively. Average interest-bearing bank deposits and investment securities both decreased for the three and six month periods ended June 30, 2014 as compared to the same periods of 2013. Loans generally have notably higher yields compared to interest-bearing bank deposits and investment securities, leading to a positive effect on net interest margin. Our increasing average loan balances positively influenced net interest margin while a highly competitive loan environment and a prolonged period of low interest rates, as well as lower balances of average interest-bearing bank deposits and investment securities, continued to put downward pressure on yields and margins.

Total average interest-bearing liability balances decreased for the three and six month periods ended June 30, 2014 as compared to the same periods of 2013. Core deposits are an important low cost source of funding and maintaining adequate levels has allowed the Company to reduce more expensive non-core funding.

Interest income, on a tax-equivalent basis, decreased \$0.9 million and \$1.8 million for the three and six month periods ended June 30, 2014 as compared to the same periods of 2013, respectively. The interest income decline related to lower yields earned on assets in a low interest rate environment. Interest expense decreased \$0.6 million and \$1.4 million for the three and six month periods ended June 30, 2014 as compared to the same periods of 2013, respectively. The interest expense decline was a result of decreases in interest rates offered by the Company on certain deposit products as the interest rate environment remains low, along with lower average balances on time deposits and no long-term debt outstanding in 2014.

#### *Net interest margin*

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 3.13% for the three month period ended June 30, 2014 from 3.17% for the same period in 2013 and decreased slightly to 3.13% for the six month period ended June 30, 2014 from 3.14% for the same period in 2013.

Quarterly net interest margins for 2014 and 2013 are as follows:

|                | 2014  | 2013  |
|----------------|-------|-------|
| First Quarter  | 3.13% | 3.10% |
| Second Quarter | 3.13% | 3.17% |
| Third Quarter  |       | 3.20% |
| Fourth Quarter |       | 3.12% |

The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, also on a tax-equivalent basis, was 3.07% for the three month period ended June 30, 2014, compared to 3.09% for the same period in 2013 and was 3.07% for the six month period ended June 30, 2014 compared to 3.06% for the same period in 2013.

We continue to experience downward pressure on our yield in interest-earning assets resulting from a protracted period of historically low rates and heightened competition for assets, which has been experienced throughout the banking industry. The development of a stronger asset mix from increased loan balances, while actively bringing down interest expense and optimizing funding costs, remains a focus. We believe

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improvements in margin will be achieved through continued deployment of our liquid funds at higher yields as we expect to redeploy cash and securities into our loan portfolio at improved yields as the economy continues to strengthen.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for accounting policies underlying the recognition of interest income and expense.

**OTHER INCOME**

|                                     | Three Months Ended<br>June 30, |           |             |           | Six Months Ended<br>June 30, |             |  |
|-------------------------------------|--------------------------------|-----------|-------------|-----------|------------------------------|-------------|--|
|                                     | 2014                           | 2013      | %<br>Change | 2014      | 2013                         | %<br>Change |  |
|                                     | (dollars in thousands)         |           |             |           |                              |             |  |
| Trust fees                          | \$ 5,080                       | \$ 4,713  | 7.8%        | \$ 10,697 | \$ 9,921                     | 7.8%        |  |
| Commissions and brokers' fees, net  | 676                            | 569       | 18.8%       | 1,347     | 1,109                        | 21.5%       |  |
| Remittance processing               | 2,376                          | 2,085     | 14.0%       | 4,726     | 4,183                        | 13.0%       |  |
| Service charges on deposit accounts | 3,111                          | 3,023     | 2.9%        | 5,806     | 5,750                        | 1.0%        |  |
| Other service charges and fees      | 1,618                          | 1,527     | 6.0%        | 3,106     | 2,966                        | 4.7%        |  |
| Gain on sales of loans              | 1,234                          | 2,763     | (55.3)%     | 2,215     | 6,260                        | (64.6)%     |  |
| Security (losses) gains, net        | (3)                            |           | NM          | 40        |                              | NM          |  |
| Other                               | 920                            | 1,103     | (16.6)%     | 2,061     | 2,235                        | (7.8)%      |  |
| Total other income                  | \$ 15,012                      | \$ 15,783 | (4.9)%      | \$ 29,998 | \$ 32,424                    | (7.5)%      |  |

NM = percentage change in line item between periods is not meaningful.

Total other income decreased \$0.8 million and \$2.4 million for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013, respectively, primarily from decreased gains on sales of loans as the industry is experiencing a general slowdown in mortgage production, partially offset by increased trust and commissions and brokers' fees, net and remittance processing.

Combined wealth management revenue, trust and commissions and brokers' fees, net, increased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013. The increase was led by organic growth, which increased assets under care (AUC), and positive market trends. AUC increased to \$5.1 billion as of June 30, 2014 compared to \$4.5 billion at June 30, 2013. Continued growth in new AUC driven by our wealth management teams suggest future income will also be positively impacted as wealth management revenues are typically highly correlated to AUC. Furthermore, the Company believes the boutique services offered by Trevett Capital Partners within its suite of wealth services broadens its business base and enhances its ability to further develop revenue sources.

Remittance processing revenue relates to our payment processing company, FirsTech. FirsTech's revenue increased \$0.3 million for the three month period ended June 30, 2014 as compared to the same period in 2013 and \$0.5 million for the six month period ended June 30, 2014 as compared to the same period in 2013, primarily on growth in electronic processing revenues, including online and mobile services. FirsTech adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and nationally.

Overall, service charges on deposit accounts combined with other service charges and fees increased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013. Evolving regulation, product changes and changing behaviors by our client base may impact the revenue derived from charges on deposit accounts going forward.

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Gain on sales of loans decreased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013 due to lower refinance volume as a result of market-based influences and higher interest rates. Challenging conditions across the mortgage industry began to moderate during the second quarter of 2014, as reflected by increases in gains on sales of loans and mortgage portfolio balances relative to the first quarter of 2014.

Other income decreased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013. The decrease was primarily due to the income fluctuation in the Company's private equity investment funds.

**OTHER EXPENSE**

|                                   | Three Months Ended<br>June 30 |           |         | %<br>Change<br>(dollars in thousands) | Six Months Ended<br>June 30 |           |         | %<br>Change |
|-----------------------------------|-------------------------------|-----------|---------|---------------------------------------|-----------------------------|-----------|---------|-------------|
|                                   | 2014                          | 2013      |         |                                       | 2014                        | 2013      |         |             |
| Compensation expense:             |                               |           |         |                                       |                             |           |         |             |
| Salaries and wages                | \$ 12,578                     | \$ 12,781 | (1.6)%  |                                       | \$ 24,827                   | \$ 26,341 | (5.7)%  |             |
| Employee benefits                 | 2,386                         | 2,947     | (19.0)% |                                       | 5,279                       | 6,174     | (14.5)% |             |
| Total compensation expense        | \$ 14,964                     | \$ 15,728 | (4.9)%  |                                       | \$ 30,106                   | \$ 32,515 | (7.4)%  |             |
| Net occupancy expense of premises | 2,055                         | 2,103     | (2.3)%  |                                       | 4,298                       | 4,285     | 0.3%    |             |
| Furniture and equipment expenses  | 1,153                         | 1,222     | (5.6)%  |                                       | 2,357                       | 2,476     | (4.8)%  |             |
| Data processing                   | 2,687                         | 2,568     | 4.6%    |                                       | 5,499                       | 5,207     | 5.6%    |             |
| Amortization of intangible assets | 733                           | 783       | (6.4)%  |                                       | 1,480                       | 1,566     | (5.5)%  |             |
| Regulatory expense                | 501                           | 617       | (18.8)% |                                       | 1,056                       | 1,263     | (16.4)% |             |
| OREO expense                      | 51                            | 58        | (12.1)% |                                       | 71                          | 601       | (88.2)% |             |
| Other                             | 4,679                         | 4,722     | (0.9)%  |                                       | 8,574                       | 9,455     | (9.3)%  |             |
| Total other expense               | \$ 26,823                     | \$ 27,801 | (3.5)%  |                                       | \$ 53,441                   | \$ 57,368 | (6.8)%  |             |
| Income taxes                      | \$ 4,025                      | \$ 3,787  | 6.3%    |                                       | \$ 8,063                    | \$ 7,011  | 15.0%   |             |
| Effective rate on income taxes    | 33.0%                         | 33.7%     |         |                                       | 33.4%                       | 33.6%     |         |             |
| Efficiency ratio                  | 64.4%                         | 64.9%     |         |                                       | 64.5%                       | 66.9%     |         |             |

Total other expense decreased \$1.0 million and \$3.9 million for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013, respectively, as the Company remains focused on cost control and productivity, which broadly reduced operating expenses.

Total compensation expense decreased \$0.8 million for the three month period ended June 30, 2014 as compared to the same period in 2013 and \$2.4 million for the six month period ended June 30, 2014 compared to the same period in 2013. Full-time equivalent employees decreased to 813 at June 30, 2014 from 875 at June 30, 2013. An ongoing commitment to seek sensible opportunities to reduce cost and enhance productivity resulted in personnel reductions and other cost containment efforts that have contributed to positive expense trends.

Combined occupancy expenses and furniture and equipment expenses decreased for the three and six month periods ended June 30, 2014 as compared to the same period in 2013. We continue to evaluate our operations for appropriate cost control measures while seeking improvements in service delivery to our customers.

Data processing expense increased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013. As the Company manages data processing expense, it continues to enhance its mobile and internet banking services and prioritize strategies to mitigate the risk from cybercriminals through the use of new technology, industry best practices and customer education. A portion of the increase in data processing expense was also related to supporting new sources of revenue growth at FirsTech.

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

Regulatory expense decreased for the three and six month periods ended June 30, 2014 as compared to the same periods in 2013. We anticipate that our regulatory expenses will remain close to current levels for the near future.

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Our costs associated with OREO, such as collateral preservation and legal fees, decreased for the three and six months ended June 30, 2014 as compared to the same periods in 2013. This expense fluctuates based on the management of commercial properties and the operating activity associated with the properties that we hold throughout the year. The OREO balance at June 30, 2014 was \$1.6 million compared to \$2.6 million at June 30, 2013.

Other expense decreased for the three and six months ended June 30, 2014 as compared to the same periods in 2013 primarily as a result of a widespread reduction in expenses due to an enhanced emphasis on cost control.

The effective rate on income taxes, or income taxes divided by income before taxes, of 33.0% and 33.4% for the three and six months ended June 30, 2014, respectively, was lower than the combined federal and state statutory rate of approximately 41% due to fairly stable amounts of tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a portion of our taxable income. As taxable income increases, we expect our effective tax rate to increase. Under current law, Illinois net operating loss carryover limitations expired in 2014 and the corporate income tax rate is scheduled for reduction effective January 1, 2015. The Company continues to monitor evolving state tax legislation and its potential impact on operations on an ongoing basis.

The efficiency ratio represents total other expense, less amortization charges, as a percentage of tax-equivalent net interest income plus other income, less security gains and losses. The efficiency ratio, which is a non-GAAP financial measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio of 64.4% for the three month period ended June 30, 2014 improved from 64.9% in the comparable period in 2013. The efficiency ratio for the first six months of 2014 was 64.5%, an improvement from 66.9% for the same period of 2013. The process of examining appropriate avenues to improve efficiency is expected to continue as a focus in future periods with an emphasis on revenue growth.

### FINANCIAL CONDITION

#### SIGNIFICANT BALANCE SHEET ITEMS

|                                                | June 30,<br>2014       | December 31,<br>2013 | % Change |
|------------------------------------------------|------------------------|----------------------|----------|
|                                                | (dollars in thousands) |                      |          |
| <b>Assets</b>                                  |                        |                      |          |
| Securities available for sale                  | \$ 840,112             | \$ 841,310           | (0.1)%   |
| Securities held to maturity                    | 1,850                  | 834                  | 121.8%   |
| Loans, net, including loans held for sale      | 2,276,640              | 2,247,733            | 1.3%     |
| Total assets                                   | \$ 3,507,449           | \$ 3,539,575         | (0.9)%   |
| <b>Liabilities</b>                             |                        |                      |          |
| Deposits:                                      |                        |                      |          |
| Noninterest-bearing                            | \$ 605,346             | \$ 547,531           | 10.6%    |
| Interest-bearing                               | 2,256,182              | 2,321,607            | (2.8)%   |
| Total deposits                                 | \$ 2,861,528           | \$ 2,869,138         | (0.3)%   |
| Securities sold under agreements to repurchase | \$ 140,563             | \$ 172,348           | (18.4)%  |

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|                             |    |           |    |           |        |
|-----------------------------|----|-----------|----|-----------|--------|
| Total liabilities           | \$ | 3,080,682 | \$ | 3,124,211 | (1.4)% |
| <b>Stockholders' equity</b> | \$ | 426,767   | \$ | 415,364   | 2.7%   |

First Busey's balance sheet at June 30, 2014 decreased as compared with its balance sheet at December 31, 2013.

Total securities held steady at June 30, 2014 compared to December 31, 2013. Net loans, including loans held for sale, increased by \$28.9 million, or 1.3%, during the same period. Loan demand was reduced in the first quarter of 2014 due to seasonal slowness and extreme winter weather conditions, but improved significantly in the second quarter.

Total liabilities decreased by \$43.5 million, or 1.4%, at June 30, 2014 compared to December 31, 2013. Noninterest-bearing deposits increased by \$57.8 million, or 10.6%, at June 30, 2014 compared to December 31, 2013, while interest-bearing deposits decreased by \$65.4 million, or 2.8%, at June 30, 2014 compared to December 31, 2013. Securities sold under agreements to repurchase decreased by \$31.8 million, or 18.4%, due to changing customer preferences and normal fluctuations in balances. The Company remained strongly core deposit funded at 77.3% of total assets as of June 30, 2014, with solid liquidity and significant market share in the communities it serves.

Stockholders' equity increased to \$426.8 million at June 30, 2014 as compared to \$415.4 million at December 31, 2013. This increase was primarily the result of earnings in the first half of 2014 and increases in the market value of our securities portfolio, partially offset by dividends paid on preferred and common stock.

## ASSET QUALITY

### Loan Portfolio

Geographic distributions of loans by category were as follows:

|                                | June 30, 2014          |            |            |              |
|--------------------------------|------------------------|------------|------------|--------------|
|                                | Illinois               | Florida    | Indiana    | Total        |
|                                | (dollars in thousands) |            |            |              |
| Commercial                     | \$ 510,576             | \$ 21,429  | \$ 21,585  | \$ 553,590   |
| Commercial real estate         | 826,098                | 165,622    | 110,005    | 1,101,725    |
| Real estate construction       | 50,606                 | 15,782     | 16,048     | 82,436       |
| Retail real estate             | 462,173                | 101,466    | 12,987     | 576,626      |
| Retail other                   | 9,034                  | 574        | 83         | 9,691        |
| Total                          | \$ 1,858,487           | \$ 304,873 | \$ 160,708 | \$ 2,324,068 |
| Less held for sale(1)          |                        |            |            | 20,286       |
|                                |                        |            |            | \$ 2,303,782 |
| Less allowance for loan losses |                        |            |            | 47,428       |
| Net loans                      |                        |            |            | \$ 2,256,354 |

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

|                          | December 31, 2013      |            |            |              |
|--------------------------|------------------------|------------|------------|--------------|
|                          | Illinois               | Florida    | Indiana    | Total        |
|                          | (dollars in thousands) |            |            |              |
| Commercial               | \$ 530,174             | \$ 20,536  | \$ 29,902  | \$ 580,612   |
| Commercial real estate   | 800,568                | 160,255    | 131,450    | 1,092,273    |
| Real estate construction | 55,190                 | 17,426     | 6,239      | 78,855       |
| Retail real estate       | 419,801                | 103,104    | 11,588     | 534,493      |
| Retail other             | 8,422                  | 552        | 93         | 9,067        |
| Total                    | \$ 1,814,155           | \$ 301,873 | \$ 179,272 | \$ 2,295,300 |

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|                                |    |           |
|--------------------------------|----|-----------|
| Less held for sale(1)          |    | 13,840    |
|                                | \$ | 2,281,460 |
| Less allowance for loan losses |    | 47,567    |
| Net loans                      | \$ | 2,233,893 |

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

The total loan portfolio, gross, as of June 30, 2014 increased \$28.8 million from December 31, 2013; gross commercial balances (consisting of commercial, commercial real estate and real estate construction loans) decreased \$14.0 million from December 31, 2013. Loans held for sale increased \$6.5 million as of June 30, 2014 from December 31, 2013. Retail real estate and retail other, less loans held for sale, increased \$36.3 million as of June 30, 2014 from December 31, 2013 as challenging conditions across the mortgage industry began to moderate during the second quarter of 2014. Achieving meaningful organic growth remains a focus for us, and our commitment to credit quality remains strong, as evidenced by another quarter of meaningful progress across a range of credit indicators as discussed further below.

#### *Allowance for loan losses*

Our allowance for loan losses was \$47.4 million, or 2.0% of loans, at June 30, 2014, compared to \$47.6 million, or 2.1% of loans, at December 31, 2013.

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

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

As of June 30, 2014, management believed the level of the allowance and coverage of non-performing loans to be appropriate based upon the information available. However, additional losses may be identified in our loan portfolio as new information is obtained. We may need to provide for additional loan losses in the future as management continues to identify potential problem loans and gains further information concerning existing problem loans.

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

#### *Provision for Loan Losses*

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

Our provision for loan losses was \$1.0 million during the second quarter of 2014 compared to \$2.0 million in the same period of 2013. Our provision for loan losses was \$2.0 million during the first six months of 2014 and \$4.0 million in the same period of 2013. The relative provision expenses during 2014 and 2013 were reflective of management's assessment of the lower level of risk in the portfolio in 2014.

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

*Non-performing Loans*

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

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

|                                                                          | June 30,<br>2014       | March 31,<br>2014 | December 31,<br>2013 | September 30,<br>2013 |
|--------------------------------------------------------------------------|------------------------|-------------------|----------------------|-----------------------|
|                                                                          | (dollars in thousands) |                   |                      |                       |
| Non-accrual loans                                                        | \$ 11,232              | \$ 14,340         | \$ 17,164            | \$ 18,489             |
| Loans 90+ days past due and still accruing                               | 235                    |                   | 195                  | 199                   |
| Total non-performing loans                                               | \$ 11,467              | \$ 14,340         | \$ 17,359            | \$ 18,688             |
| OREO                                                                     | \$ 1,622               | \$ 1,937          | \$ 2,133             | \$ 2,156              |
| Total non-performing assets                                              | \$ 13,089              | \$ 16,277         | \$ 19,492            | \$ 20,844             |
| Allowance for loan losses                                                | \$ 47,428              | \$ 47,426         | \$ 47,567            | \$ 47,964             |
| Allowance for loan losses to loans                                       | 2.0%                   | 2.1%              | 2.1%                 | 2.1%                  |
| Allowance for loan losses to non-performing loans                        | 413.6%                 | 330.7%            | 274.0%               | 256.7%                |
| Non-performing loans to loans, before allowance for loan losses          | 0.5%                   | 0.6%              | 0.8%                 | 0.8%                  |
| Non-performing loans and OREO to loans, before allowance for loan losses | 0.6%                   | 0.7%              | 0.9%                 | 0.9%                  |

We continue to drive positive trends across a range of credit indicators and expect these levels to generally stabilize in 2014. Total non-performing assets were \$13.1 million at June 30, 2014, compared to \$19.5 million at December 31, 2013. Despite strong growth in loans for the quarter, the balance in the allowance for loan losses held steady, consistent with existing methodologies and management's assessment of overall stability in general asset quality trends.

As of June 30, 2014, the Bank had charged-off \$3.4 million of principal balance on loans that were on non-accrual status at June 30, 2014. Partial charge-offs reduce the reported principal of the balance of the loan, whereas, a specific allocation of allowance for loan losses does not reduce the reported principal balance of the loan. Non-accrual loans are reported net of charge-offs, but include related specific allocations of the allowance for loan losses. In summary, if we had not charged-off \$3.4 million in loans, our non-accrual loans would have been that amount greater than the \$11.2 million reported.

#### Potential Problem Loans

Potential problem loans are those loans which are not categorized as impaired, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with present loan repayment terms. Management assesses the potential for loss on such loans as it would with other problem loans and has considered the effect of any potential loss in determining its provision for probable loan losses. Potential problem loans of \$40.7 million at June 30, 2014 were less than the \$50.1 million reported at December 31, 2013. The balance of potential problem loans is a reflection of continued economic challenges; however, we do not believe the potential losses will be as great as seen in the past. Management continues to monitor these credits and anticipates that restructurings, guarantees, additional collateral or other planned actions will result in full repayment of the debts. As of June 30, 2014, management identified no other loans that represent or result from trends or uncertainties which management reasonably expected to materially impact future operating results, liquidity or capital resources. As of June 30, 2014, management was not aware of any information about any other credits which caused management to have serious doubts as to the ability of such borrower(s) to comply with the loan repayment terms.



## LIQUIDITY

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

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

Based upon the level of investment securities that reprice within 30 days and 90 days, as of June 30, 2014, management believed that adequate liquidity existed to meet all projected cash flow obligations. We seek to achieve a satisfactory degree of liquidity by actively managing both assets and liabilities. Asset management guides the proportion of liquid assets to total assets, while liability management monitors future funding requirements and prices liabilities accordingly.

## OFF-BALANCE-SHEET ARRANGEMENTS

At June 30, 2014, the Company had outstanding standby letters of credit of \$19.6 million and commitments to extend credit of \$581.2 million to its customers. Since these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. These commitments are made in the ordinary course of business. As of June 30, 2014, no amounts were recorded as liabilities for the Company's potential obligations under these commitments.

## CAPITAL RESOURCES

The ability of the Company to pay cash dividends to its stockholders and to service its debt historically was dependent on the receipt of cash dividends from its subsidiaries. However, Busey Bank sustained significant losses during 2008 and 2009 resulting in pressure on capital, which was relieved through injections of capital from the Company. State chartered banks have certain statutory and regulatory restrictions on the amount of cash dividends they may pay. Due to the significant losses in the past and the Company's desire to maintain a strong capital position at Busey Bank, no dividends have been paid from Busey Bank since 2009. Until such time as retained earnings have been restored, Busey Bank will not be permitted to pay dividends, and we will need to request permission from Busey Bank's primary regulator to distribute any capital out of Busey Bank. On January 22, 2013, with the approval of its primary regulator, Busey Bank transferred \$50.0 million to the Company representing a return of capital and associated surplus as a result of an amendment to Busey Bank's charter.

The Company and Busey Bank are subject to regulatory capital requirements administered by federal and state banking agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulations to ensure capital adequacy require the Company and Busey Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the

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regulations), and, for the Bank, Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations). Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, may have a direct material effect on our financial statements. The Company, as a financial holding company, is required to be well capitalized in the two capital categories based on risk-weighted assets, as shown in the table below. As of June 30, 2014, the Company and Busey Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered well capitalized.

|                                                        | Actual<br>Amount | Ratio  | Minimum<br>Capital Requirement<br>Amount<br>(dollars in thousands) | Ratio | Minimum To Be<br>Well Capitalized<br>Amount | Ratio  |
|--------------------------------------------------------|------------------|--------|--------------------------------------------------------------------|-------|---------------------------------------------|--------|
| <b>As of June 30, 2014:</b>                            |                  |        |                                                                    |       |                                             |        |
| <u><b>Total Capital (to Risk Weighted Assets)</b></u>  |                  |        |                                                                    |       |                                             |        |
| Consolidated                                           | \$ 473,655       | 18.49% | \$ 204,962                                                         | 8.00% | \$ 256,202                                  | 10.00% |
| Bussey Bank                                            | \$ 427,147       | 16.79% | \$ 203,521                                                         | 8.00% | \$ 254,401                                  | 10.00% |
| <u><b>Tier I Capital (to Risk Weighted Assets)</b></u> |                  |        |                                                                    |       |                                             |        |
| Consolidated                                           | \$ 440,660       | 17.20% | \$ 102,481                                                         | 4.00% | \$ 153,721                                  | 6.00%  |
| Bussey Bank                                            | \$ 394,374       | 15.50% | \$ 101,761                                                         | 4.00% | \$ 152,641                                  | 6.00%  |
| <u><b>Tier I Capital (to Average Assets)</b></u>       |                  |        |                                                                    |       |                                             |        |
| Consolidated                                           | \$ 440,660       | 12.66% | \$ 139,170                                                         | 4.00% | N/A                                         | N/A    |
| Bussey Bank                                            | \$ 394,374       | 11.48% | \$ 137,434                                                         | 4.00% | \$ 171,793                                  | 5.00%  |

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

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

## FORWARD LOOKING STATEMENTS

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

## Critical Accounting Estimates

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

Our significant accounting policies are described in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The majority of these accounting policies do not require management to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

**Fair Value of Investment Securities.** Securities are classified as held to maturity when First Busey has the ability and management has the positive intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. First Busey had \$1.9 million of securities classified as held to maturity at June 30, 2014. First Busey had no securities classified as trading at June 30, 2014. Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. As of June 30, 2014, First Busey had \$840.1 million of securities classified as available for sale. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.



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

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

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

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

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

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

**Deferred Taxes.** We have maintained significant net deferred tax assets for deductible temporary differences, the largest of which relates to the net operating loss carryforward and the allowance for loan losses. For income tax return purposes, only actual charge-offs are deductible, not the provision for loan losses. Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is more-likely-than-not that the deferred tax asset will not be realized. The determination of the recoverability of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions. We consider both positive and negative evidence regarding the ultimate recoverability of our deferred tax assets. Positive evidence includes available tax planning strategies and the probability that taxable income will continue to be generated in future periods, as it was in periods since March 31, 2010, while negative evidence includes a cumulative loss in 2009 and 2008 and certain business and economic trends. We evaluated the recoverability of our net deferred tax assets and established a valuation allowance for certain state net operating loss and credit carryforwards that are not expected to be fully realized. Management believes that it is more-likely-than-not that the other deferred tax assets included in the accompanying consolidated financial statements will be fully realized. We determined that no valuation allowance was required for any other deferred tax assets as of June 30, 2014, although there is no guarantee that those assets will be recognizable in future periods.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE

#### DISCLOSURES ABOUT MARKET RISK

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

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

As interest rate changes do not impact all categories of assets and liabilities equally or simultaneously, the asset-liability committee primarily relies on balance sheet and income simulation analysis to determine the potential impact of changes in market interest rates on net interest income. In these standard simulation models, the balance sheet is projected over a year-one time horizon and a year-two time horizon, and net interest income is calculated under current market rates and then assuming permanent instantaneous shifts of +/-100, +/-200, +/-300 and +/-400 basis points. Management measures such changes assuming immediate and sustained shifts in the federal funds rate and other market rate indices and the corresponding shifts in other non-market rate indices based on their historical changes relative to changes in the federal funds rate and other market indices. The model assumes assets and liabilities remain constant at the measurement date balances. The model uses repricing frequency on all variable-rate assets and liabilities. Prepayment speeds on loans have been adjusted to incorporate expected prepayment speeds in both a declining and rising rate environment. As of June 30, 2014 and December 31, 2013, due to the current low interest rate environment, a downward adjustment in federal fund rates was not possible.



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

|                   | Year-One: Basis Point Changes |      |      |      |         |         |          |          |
|-------------------|-------------------------------|------|------|------|---------|---------|----------|----------|
|                   | -400                          | -300 | -200 | -100 | +100    | +200    | +300     | +400     |
| June 30, 2014     | NA                            | NA   | NA   | NA   | (3.57)% | (7.13)% | (11.12)% | (15.35)% |
| December 31, 2013 | NA                            | NA   | NA   | NA   | (3.55)% | (6.91)% | (10.62)% | (14.60)% |

  

|                   | Year-Two: Basis Point Changes |      |      |      |       |       |         |         |
|-------------------|-------------------------------|------|------|------|-------|-------|---------|---------|
|                   | -400                          | -300 | -200 | -100 | +100  | +200  | +300    | +400    |
| June 30, 2014     | NA                            | NA   | NA   | NA   | 0.30% | 0.17% | (0.51)% | (1.69)% |
| December 31, 2013 | NA                            | NA   | NA   | NA   | 0.54% | 0.63% | 0.15%   | (0.88)% |

The risk is monitored and managed within approved policy limits. The calculation of potential effects of hypothetical interest rate changes was based on numerous assumptions and should not be relied upon as indicative of actual results. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies. The above results do not take into account any management action to mitigate potential risk.

#### ITEM 4. CONTROLS AND PROCEDURES

##### *Evaluation of Disclosure Controls and Procedures*

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was carried out as of June 30, 2014, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

##### *Changes in Internal Controls over Financial Reporting*

During the quarter ended June 30, 2014, First Busey did not make any changes in its internal control over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) issued an updated version of its Internal Control - Integrated Framework ( 2013 Framework ). Originally issued in 1992 ( 1992 Framework ), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework will remain effective during the transition, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of June 30, 2014, First Busey continues to utilize the 1992 Framework and will transition to the 2013 Framework by the end of 2014.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

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

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in Item 1A of Part I of the Company's 2013 Annual Report on Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Repurchases

There were no purchases made by or on behalf of First Busey of shares of its common stock during the quarter ended June 30, 2014.

On January 22, 2008, First Busey announced that its board of directors had authorized the repurchase of 1,000,000 shares of common stock. First Busey's repurchase plan has no expiration date and is active until all the shares are repurchased or action is taken by the board of directors to discontinue the plan. As of June 30, 2014, under the Company's stock repurchase plan, 895,655 shares remained authorized for repurchase.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

(a) None.

(b) None.

**ITEM 6. EXHIBITS**

- 10.1      Employment Agreement by and among First Busey Corporation, Busey Bank and Robin Elliott, effective February 1, 2014 (filed as Exhibit 10.1 to First Busey's Form 8-K dated May 27, 2014 and incorporated herein by reference).
- 31.1      Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 31.2      Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 32.1      Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's Chief Executive Officer.
- 32.2      Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's Chief Financial Officer.
- 101      Interactive Data File

Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at June 30, 2014 and December 31, 2013; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013; (iv) Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (vi) Notes to Unaudited Consolidated Financial Statements.

**SIGNATURES**

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

**FIRST BUSEY CORPORATION**

**(Registrant)**

By: /s/ VAN A. DUKEMAN

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

By: /s/ ROBIN N. ELLIOTT

Robin N. Elliott  
Chief Financial Officer  
(Principal financial and accounting officer)

Date: August 7, 2014