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**

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

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

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

Class	**Outstanding at 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)	
Assets		
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
Liabilities and Stockholders Equity		
Liabilities		
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
Stockholders Equity		
Series C Preferred stock, $.001 par value, 72,664 shares authorized, issued and outstanding, $1,000.00 liquidation value per share	$ 72,664	$ 72,664
Common stock, $.001 par value, authorized 200,000,000 shares; shares issued 88,287,132	88	88
Additional paid-in capital	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)			
Interest income:				
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
Interest expense:				
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
Other income:				
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
Other expense:				
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
Net income	$	16,072	$	13,873
Preferred stock dividends		363		1,816
Net income available to common stockholders	$	15,709	$	12,057
Basic earnings per common share	$	0.18	$	0.14
Diluted earnings per common share	$	0.18	$	0.14
Dividends declared per share of common stock	$	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)	
Interest income:		
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
Interest expense:		
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
Other income:		
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
Other expense:		
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
Net income	$ 8,185	$ 7,440
Preferred stock dividends	181	908
Net income available to common stockholders	$ 8,004	$ 6,532
Basic earnings per common share	$ 0.09	$ 0.08
Diluted earnings per common share	$ 0.09	$ 0.08
Dividends declared per share of common stock	$ 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(dollars in thousands)			
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 Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2012	$ 72,664	$ 88	$ 594,411	$ (240,321)	$ 13,542	$ (31,587)	$ 408,797
Net income				13,873			13,873
Other comprehensive loss					(7,775)		(7,775)
Issuance of treasury stock for employee stock purchase plan			(167)			222	55
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit			(282)			249	(33)
Cash dividends common stock at $0.04 per share				(3,466)			(3,466)
Stock dividend equivalents restricted stock units at $0.04 per share			17	(17)			
Stock-based employee compensation			395				395
Preferred stock dividends				(1,816)			(1,816)
Balance, June 30, 2013	$ 72,664	$ 88	$ 594,374	$ (231,747)	$ 5,767	$ (31,116)	$ 410,030
Balance, December 31, 2013	$ 72,664	$ 88	$ 593,144	$ (225,722)	$ 4,456	$ (29,266)	$ 415,364
Net income				16,072			16,072
Other comprehensive income					2,964		2,964
			(195)			280	85

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)		
Cash Flows from Operating Activities				
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
Net cash provided by operating activities before activities for loans originated for sale	$	26,051	$	33,967
Loans originated for sale		(107,686)		(273,889)
Proceeds from sales of loans		103,455		279,278
Net cash provided by operating activities	$	21,820	$	39,356
Cash Flows from Investing Activities				
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)
Net cash used in investing activities	$	(23,795)	$	(26,953)

(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)	
Cash Flows from Financing Activities		
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
Net cash used in financing activities	$ (47,596)	$ (112,454)
Net decrease in cash and due from banks	$ (49,571)	$ (100,051)
Cash and due from banks, beginning	$ 231,603	$ 351,255
Cash and due from banks, ending	$ 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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
June 30, 2014:				
Available for sale				
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
Held to maturity				
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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
December 31, 2013:				
Available for sale				
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 Cost	Fair Value	Amortized Cost	Fair 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.

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 losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
June 30, 2014:						
Available for sale						
U.S. Treasury securities	$	$	$ 364	$ 4	$ 364	$ 4
Obligations of U.S. government corporations and agencies	55	1	25,149	110	25,204	111
Obligations of states and political subdivisions	11,951	24	47,155	708	59,106	732
Residential mortgage-backed securities	15,219	66	11,376	75	26,595	141
Corporate debt securities	5,724	31	215	5	5,939	36
Total temporarily impaired securities	$ 32,949	$ 122	$ 84,259	$ 902	$ 117,208	$ 1,024

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
December 31, 2013:						
Available for sale						
U.S. Treasury securities	$ 25,830	$ 67	$	$	$ 25,830	$ 67
Obligations of U.S. government corporations and agencies	25,946	328			25,946	328
Obligations of states and political subdivisions	92,703	2,518	8,492	294	101,195	2,812
Residential mortgage-backed securities	53,543	535			53,543	535
Corporate debt securities	1,614	33			1,614	33
Total temporarily impaired securities	$ 199,636	$ 3,481	$ 8,492	$ 294	$ 208,128	$ 3,775
Held to maturity						
Obligations of states and political subdivisions	$ 597	$ 4	$	$	$ 597	$ 4
Total temporarily impaired securities	$ 597	$ 4	$	$	$ 597	$ 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.

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

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.

	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.

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.

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. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 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. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 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			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
	(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			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
	(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, 2014	December 31, 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.

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 Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 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 Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 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
Florida						
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.

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 Real Estate**	**Real Estate Construction**	**Retail Real 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

	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

	As of December 31, 2013 (dollars in thousands)					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
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 June 30,		Six Months Ended 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.

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 Exercise Price	Weighted-Average Remaining Contractual 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 Stock Units	Director Deferred Stock Units	Total		Weighted-Average Grant Date 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

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.

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

	Goodwill		Total Assets	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(dollars in thousands)		(dollars in thousands)	
Goodwill & Total Assets:				
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)	
Interest Income:				
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
Interest Expense:				
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
Other Income:				
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
Net Income:				
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.

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 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
June 30, 2014				
Securities available for sale				
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
Derivative assets				
Foreign currency forward contracts		5		5
Derivative liabilities				
Foreign currency forward contracts		22		22
December 31, 2013				
Securities available for sale				
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 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
June 30, 2014				
Impaired loans	$	$	$ 3,792	$ 3,792
OREO			1,140	1,140
December 31, 2013				
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:

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

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:				