FIRST BUSEY CORP /NV/
Form 10-Q
May 09, 2013

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 3/31/2013

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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 o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Class	**Outstanding at May 9, 2013**
Common Stock, $.001 par value	86,691,159

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2013 and December 31, 2012

(Unaudited)

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Assets		
Cash and due from banks (interest-bearing 2013 $383,530; 2012 $235,428)	$ 447,608	$ 351,255
Securities available for sale	952,579	1,001,497
Loans held for sale	30,833	40,003
Loans (net of allowance for loan losses 2013 $47,773; 2012 $48,012)	1,982,074	1,985,095
Premises and equipment	70,136	71,067
Goodwill	20,686	20,686
Other intangible assets	11,920	12,703
Cash surrender value of bank owned life insurance	39,813	39,485
Other real estate owned (OREO)	2,632	3,450
Deferred tax asset, net	37,567	39,373
Other assets	52,462	53,442
Total assets	$ 3,648,310	$ 3,618,056
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 547,226	$ 611,043
Interest-bearing	2,469,719	2,369,249
Total deposits	$ 3,016,945	$ 2,980,292
Securities sold under agreements to repurchase	130,809	139,024
Long-term debt	6,000	7,000
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	25,851	27,943
Total liabilities	$ 3,234,605	$ 3,209,259
Stockholders Equity		
Series C Preferred stock, $.001 par value, 72,664 shares authorized, issued and outstanding, $1,000.00 liquidation value per share	$ 72,664	$ 72,664
Common stock, $.001 par value, authorized 200,000,000 shares; shares issued 88,287,132	88	88
Additional paid-in capital	594,313	594,411
Accumulated deficit	(234,796)	(240,321)
Accumulated other comprehensive income	12,671	13,542
Total stockholders equity before treasury stock	$ 444,940	$ 440,384
Common stock shares held in treasury at cost 2013 1,595,973; 2012 1,616,282	(31,235)	(31,587)
Total stockholders equity	$ 413,705	$ 408,797
Total liabilities and stockholders equity	$ 3,648,310	$ 3,618,056
Common shares outstanding at period end	86,691,159	86,670,850

See accompanying notes to unaudited consolidated financial statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

		2013		2012
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	22,961	$	25,526
Interest and dividends on investment securities:				
Taxable interest income		3,171		3,768
Non-taxable interest income		983		802
Total interest income	$	27,115	$	30,096
Interest expense:				
Deposits	$	2,097	$	3,748
Securities sold under agreements to repurchase		44		78
Short-term borrowings		9		9
Long-term debt		81		226
Junior subordinated debt owed to unconsolidated trusts		301		337
Total interest expense	$	2,532	$	4,398
Net interest income	$	24,583	$	25,698
Provision for loan losses		2,000		5,000
Net interest income after provision for loan losses	$	22,583	$	20,698
Other income:				
Trust fees	$	5,208	$	5,195
Commissions and brokers fees, net		540		506
Remittance processing		2,098		2,167
Service charges on deposit accounts		2,727		2,811
Other service charges and fees		1,439		1,381
Gain on sales of loans		3,497		2,413
Other		1,132		3,407
Total other income	$	16,641	$	17,880
Other expense:				
Salaries and wages	$	13,560	$	12,111
Employee benefits		3,227		2,896
Net occupancy expense of premises		2,182		2,205
Furniture and equipment expense		1,254		1,272
Data processing		2,639		2,159
Amortization of intangible assets		783		827
Regulatory expense		646		626
OREO expense		543		5
Other		4,733		5,101
Total other expense	$	29,567	$	27,202
Income before income taxes	$	9,657	$	11,376
Income taxes		3,224		3,733
Net income	$	6,433	$	7,643
Preferred stock dividends		908		908
Net income available to common stockholders	$	5,525	$	6,735
Basic earnings per common share	$	0.06	$	0.08
Diluted earnings per common share	$	0.06	$	0.08
Dividends declared per share of common stock	$		$	0.04

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

	2013	2012
	(dollars in thousands)	
Net income	$ 6,433	$ 7,643
Other comprehensive (loss), before tax:		
Unrealized net (losses) on securities:		
Unrealized net holding (losses) arising during period	$ (1,480)	$ (196)
Other comprehensive (loss), before tax	$ (1,480)	$ (196)
Income tax (benefit) related to items of other comprehensive income	(609)	(80)
Other comprehensive (loss), net of tax	$ (871)	$ (116)
Comprehensive income	$ 5,562	$ 7,527

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

	2013	2012
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 6,433	$ 7,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	251	220
Depreciation and amortization	2,189	2,161
Provision for loan losses	2,000	5,000
Provision for deferred income taxes	2,415	3,488
Amortization of security premiums and discounts, net	2,549	2,225
Gain on sales of loans, net	(3,497)	(2,413)
Net loss (gain) on sales of OREO properties	51	(40)
Increase in cash surrender value of bank owned life insurance	(328)	(659)
Change in assets and liabilities:		
Decrease (increase) in other assets	1,257	(132)
Decrease in other liabilities	(1,924)	(1,845)
Decrease in interest payable	(165)	(276)
Decrease (increase) in income taxes receivable	(277)	520
Net cash provided by operating activities before activities for loans originated for sale	$ 10,954	$ 15,892
Loans originated for sale	(130,546)	(146,232)
Proceeds from sales of loans	143,213	134,477
Net cash provided by operating activities	$ 23,621	$ 4,137
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	2,295	4,152
Proceeds from maturities of securities classified available for sale	56,705	47,153
Purchase of securities classified available for sale	(14,111)	(162,724)
Net decrease in loans	774	46,588
Proceeds from disposition of premises and equipment	462	19
Proceeds from sale of OREO properties	1,014	2,869
Purchases of premises and equipment	(937)	(1,365)
Net cash provided by (used in) investing activities	$ 46,202	$ (63,308)

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Three Months Ended March 31, 2013 and 2012

(Unaudited)

	2013	2012
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	$ (29,338)	$ (54,240)
Net increase in demand, money market and savings deposits	65,991	171,013
Cash dividends paid	(908)	(4,373)
Principal payments on long-term debt	(1,000)	
Net (decrease) increase in securities sold under agreements to repurchase	(8,215)	16,842
Net cash provided by financing activities	$ 26,530	$ 129,242
Net increase in cash and due from banks	$ 96,353	$ 70,071
Cash and due from banks, beginning	$ 351,255	$ 315,053
Cash and due from banks, ending	$ 447,608	$ 385,124
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 2,697	$ 4,674
Income taxes	$ 1,110	$ 70
Non-cash investing and financing activities:		
Other real estate acquired in settlement of loans	$ 247	$ 3,096
Dividends accrued	$ 923	$ 924

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for Quarterly Reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The accompanying consolidated balance sheet as of December 31, 2012, which has been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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 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 March 31, 2013 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements.

Note 2: Recent Accounting Pronouncements

The Company reviews new accounting standards as issued. Information relating to accounting pronouncements issued and applicable to the Company in 2012 appear in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The Company has not identified any standards applicable to the Company for 2013 that it believes merit discussion.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
March 31, 2013:				
U.S. Treasury securities	$ 103,225	$ 1,292	$	$ 104,517
Obligations of U.S. government corporations and agencies	332,583	5,644	(16)	338,211
Obligations of states and political subdivisions	276,195	5,819	(220)	281,794
Residential mortgage-backed securities	190,989	7,105		198,094
Corporate debt securities	24,484	154	(10)	24,628
Total debt securities	927,476	20,014	(246)	947,244
Mutual funds and other equity securities	3,563	1,772		5,335
	$ 931,039	$ 21,786	$ (246)	$ 952,579

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
December 31, 2012:				
U.S. Treasury securities	$ 103,353	$ 1,303	$	$ 104,656
Obligations of U.S. government corporations and agencies	363,583	6,616	(5)	370,194
Obligations of states and political subdivisions	274,350	6,176	(238)	280,288
Residential mortgage-backed securities	210,139	7,576		217,715
Corporate debt securities	24,601	139	(26)	24,714
Total debt securities	976,026	21,810	(269)	997,567
Mutual funds and other equity securities	2,451	1,479		3,930
	$ 978,477	$ 23,289	$ (269)	$ 1,001,497

The amortized cost and fair value of debt securities available for sale as of March 31, 2013, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying the residential mortgage-backed securities may be called or prepaid without penalties; therefore, actual maturities could differ from the contractual maturities. All residential mortgage-backed securities were issued by U.S. government agencies and corporations.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Due in one year or less	$ 143,583	$ 144,951
Due after one year through five years	518,792	527,045
Due after five years through ten years	202,954	209,884
Due after ten years	62,147	65,364
	$ 927,476	$ 947,244

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There were no realized gains and losses related to sales of securities and no tax provision related to net realized gains and losses for the three months ended March 31, 2013 and 2012.

Investment securities with carrying amounts of $418.2 million and $489.1 million on March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
March 31, 2013:						
U.S. Treasury securities(1)	$ 355	$	$	$	$ 355	$
Obligations of U.S. government corporations and agencies	10,144	16			10,144	16
Obligations of states and political subdivisions	26,454	164	4,282	56	30,736	220
Corporate debt securities	7,159	10			7,159	10
Total temporarily impaired securities	$ 44,112	$ 190	$ 4,282	$ 56	$ 48,394	$ 246

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

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
December 31, 2012:						
Obligations of U.S. government corporations and agencies	$ 10,155	$ 5	$	$	$ 10,155	$ 5
Obligations of states and political subdivisions	37,958	189	3,311	49	41,269	238
Corporate debt securities	15,207	26			15,207	26
Total temporarily impaired securities	$ 63,320	$ 220	$ 3,311	$ 49	$ 66,631	$ 269

The total number of securities in the investment portfolio in an unrealized loss position as of March 31, 2013 was 74, and represented a loss of 0.51% 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 March 31, 2013.

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

Note 4: Loans

Geographic distributions of loans were as follows:

	March 31, 2013			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 392,171	$ 11,959	$ 21,792	$ 425,922
Commercial real estate	776,674	147,501	68,794	992,969
Real estate construction	69,263	17,040	2,875	89,178
Retail real estate	421,790	107,254	10,383	539,427
Retail other	12,677	398	109	13,184
Total	$ 1,672,575	$ 284,152	$ 103,953	$ 2,060,680
Less held for sale(1)				30,833
				$ 2,029,847
Less allowance for loan losses				47,773
Net loans				$ 1,982,074

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

	December 31, 2012			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 399,300	$ 10,861	$ 23,527	$ 433,688
Commercial real estate	777,752	138,170	65,210	981,132
Real estate construction	67,152	15,972	2,977	86,101
Retail real estate	435,911	112,052	11,873	559,836
Retail other	11,831	409	113	12,353
Total	$ 1,691,946	$ 277,464	$ 103,700	$ 2,073,110
Less held for sale(1)				40,003
				$ 2,033,107
Less allowance for loan losses				48,012
Net loans				$ 1,985,095

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

Net deferred loan origination costs included in the tables above were $0.7 million and $0.8 million as of March 31, 2013 and December 31, 2012, respectively.

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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 and by the Company s board of directors at least annually.

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

The Company s lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction 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, 2012. The significant majority of the lending activity occurs in the Company s Illinois and Indiana markets, with the remainder in the Florida market. Due to the small scale of the Indiana loan portfolio and its geographical proximity to the Illinois portfolio, the Company believes that quantitative or qualitative segregation between Illinois and Indiana is not material or warranted.

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

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

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

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

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

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

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

Loans in the highest grades, represented by grades 1, 3, 6 and 7, totaled $1.8 billion at March 31, 2013 which remained steady with balances at December 31, 2012. Loans in the lowest grades, represented by grades 8, 9 and 10, totaled $222.6 million at March 31, 2013, a slight decline from $228.1 million at December 31, 2012. The positive change in mix of loan grades began in 2012 and indicates a declining level of overall risk in the total loan portfolio.

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

	March 31, 2013					
	Weighted Avg. Risk Grade	**Grades 1,3,6**	**Grade 7**	**Grade 8**	**Grade 9**	**Grade 10**
			(dollars in thousands)			
Illinois/Indiana						
Commercial	4.76	$ 329,298	$ 57,158	$ 6,729	$ 18,863	$ 1,915
Commercial real estate	5.55	653,077	106,607	46,839	30,933	8,012
Real estate construction	7.13	33,937	7,606	13,485	13,931	3,179
Retail real estate	3.63	378,713	6,352	6,241	7,188	3,148
Retail other	3.40	12,420	359		7	
Total Illinois/Indiana		$ 1,407,445	$ 178,082	$ 73,294	$ 70,922	$ 16,254
Florida						
Commercial	5.70	$ 7,437	$ 308	$ 3,375	$ 839	$
Commercial real estate	6.37	87,297	24,374	11,203	20,665	3,962
Real estate construction	6.98	5,058	8,055	2,946	981	
Retail real estate	3.96	79,209	8,414	12,395	2,929	2,785
Retail other	2.44	381		17		
Total Florida		$ 179,382	$ 41,151	$ 29,936	$ 25,414	$ 6,747

Total	$ 1,586,827	$ 219,233	$ 103,230	$ 96,336	$ 23,001

	December 31, 2012					
	Weighted Avg. Risk Grade	Grades 1,3,6	Grade 7	Grade 8	Grade 9	Grade 10
	(dollars in thousands)					
Illinois/Indiana						
Commercial	4.68	$ 346,536	$ 46,201	$ 12,374	$ 15,677	$ 2,039
Commercial real estate	5.53	644,695	110,012	50,305	28,655	9,295
Real estate construction	7.21	30,710	7,809	14,162	14,084	3,364
Retail real estate	3.62	385,949	6,729	7,806	5,874	2,855
Retail other	3.34	11,563	372		9	
Total Illinois/Indiana		$ 1,419,453	$ 171,123	$ 84,647	$ 64,299	$ 17,553
Florida						
Commercial	5.91	$ 6,359	$ 3,544	$ 162	$ 796	$
Commercial real estate	6.36	80,232	20,667	13,238	19,279	4,754
Real estate construction	6.97	4,137	7,721	3,172	942	
Retail real estate	3.98	83,578	6,369	13,225	3,265	2,797
Retail other	2.80	391		18		
Total Florida		$ 174,697	$ 38,301	$ 29,815	$ 24,282	$ 7,551
Total		$ 1,594,150	$ 209,424	$ 114,462	$ 88,581	$ 25,104

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:

	March 31, 2013			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 1,181	$ 459	$	$ 1,915
Commercial real estate	4,138	309	193	8,012
Real estate construction				3,179
Retail real estate	571	276	11	3,148
Retail other	10			
Total Illinois/Indiana	$ 5,900	$ 1,044	$ 204	$ 16,254
Florida				
Commercial	$	$	$	$
Commercial real estate	172			3,962
Real estate construction				
Retail real estate	16			2,785
Retail other				
Total Florida	$ 188	$	$	$ 6,747
Total	$ 6,088	$ 1,044	$ 204	$ 23,001

	December 31, 2012			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual Loans
	(dollars in thousands)			
Illinois/Indiana				
Commercial	$ 111	$ 80	$ 19	$ 2,039
Commercial real estate	216	59	139	9,295
Real estate construction				3,364
Retail real estate	1,154	294	46	2,855
Retail other	2	2		
Total Illinois/Indiana	$ 1,483	$ 435	$ 204	$ 17,553
Florida				
Commercial	$	$	$	$
Commercial real estate				4,754
Real estate construction				
Retail real estate	364		52	2,797
Retail other		3		
Total Florida	$ 364	$ 3	$ 52	$ 7,551
Total	$ 1,847	$ 438	$ 256	$ 25,104

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

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

The gross interest income that would have been recorded in the three months ended March 31, 2013 if impaired loans had been current in accordance with their original terms was $0.4 million. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three months ended March 31, 2013.

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 March 31, 2013 and December 31, 2012 is as follows:

	March 31, 2013	December 31, 2012
	(dollars in thousands)	
Restructured loans:		
In compliance with modified terms	$ 18,973	$ 22,023
30 89 days past due		28
Included in non-performing loans	8,347	6,458
Total	$ 27,320	$ 28,509

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

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

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
	(dollars in thousands)			
Illinois/Indiana				
Commercial		$	2	$ 1,280
Commercial real estate				
Real estate construction			1	3,019
Retail real estate				
Retail other				
Total Illinois/Indiana		$	3	$ 4,299
Florida				
Commercial		$		$
Commercial real estate				
Real estate construction				
Retail real estate				
Retail other				
Total Florida		$		$
Total		$	3	$ 4,299

The commercial TDRs for the three months ended March 31, 2012 involve short-term principal payment relief. The real estate construction TDR for the three months ended March 31, 2012 involve a forbearance agreement.

The gross interest income that would have been recorded in the three months ended March 31, 2013 and 2012 if performing TDRs had been in accordance with their original terms instead of modified terms was insignificant.

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

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Number of contracts		Recorded investment	Number of contracts		Recorded investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial		$			$	
Commercial real estate	1		1,700	1		4,068
Real estate construction						
Retail real estate						
Retail other						
Total Illinois/Indiana	1	$	1,700	1	$	4,068
Florida						
Commercial		$			$	
Commercial real estate						
Real estate construction				1		657
Retail real estate	3		407	1		143
Retail other						
Total Florida	3	$	407	2	$	800
Total	4	$	2,107	3	$	4,868

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.

	March 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	$ 9,250	$ 4,605	$ 589	$ 5,194	$ 589	$ 8,352
Commercial real estate	14,929	10,358	1,702	12,060	847	13,138
Real estate construction	9,203	5,952	2,794	8,746	1,050	8,958
Retail real estate	6,413	5,308	30	5,338	30	5,142
Retail other						10
Total Illinois/Indiana	$ 39,795	$ 26,223	$ 5,115	$ 31,338	$ 2,516	$ 35,600
Florida						
Commercial	$	$	$	$	$	$ 157
Commercial real estate	8,751	5,770		5,770		6,355
Real estate construction	2,593	2,593		2,593		3,460
Retail real estate	13,949	11,681	95	11,776	25	14,057
Retail other						
Total Florida	$ 25,293	$ 20,044	$ 95	$ 20,139	$ 25	$ 24,029
Total	$ 65,088	$ 46,267	$ 5,210	$ 51,477	$ 2,541	$ 59,629

	December 31, 2012					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
	(dollars in thousands)					
Illinois/Indiana						
Commercial	$ 11,557	$ 7,214	$ 265	$ 7,479	$ 265	$ 10,109
Commercial real estate	17,656	12,020	1,288	13,308	634	14,607
Real estate construction	6,851	6,394		6,394		8,625
Retail real estate	6,251	4,666	530	5,196	140	5,206
Retail other						24
Total Illinois/Indiana	$ 42,315	$ 30,294	$ 2,083	$ 32,377	$ 1,039	$ 38,571
Florida						
Commercial	$	$	$	$	$	$ 271
Commercial real estate	9,533	5,988	585	6,573	235	6,506
Real estate construction	2,597	2,597		2,597		3,989
Retail real estate	16,518	12,673	1,373	14,046	483	15,254
Retail other						
Total Florida	$ 28,648	$ 21,258	$ 1,958	$ 23,216	$ 718	$ 26,020
Total	$ 70,963	$ 51,552	$ 4,041	$ 55,593	$ 1,757	$ 64,591

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 March 31, 2013 and December 31, 2012.

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 March 31, 2013 and December 31, 2012, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. As of March 31, 2013, 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 March 31, 2013 and December 31, 2012, based upon a review of the differences between the rolling 12 and 20 quarter historical loss averages by region. As of March 31, 2013, 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 first quarter of 2013, the Company did not adjust any qualitative factors. The Company bases its assessment on several sources and will continue to monitor its qualitative factors on a quarterly basis.

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

For the Three Months Ended March 31, 2013 (dollars in thousands)	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Illinois/Indiana						
Beginning balance	$ 6,597	$ 15,023	$ 2,527	$ 8,110	$ 322	$ 32,579
Provision for loan loss	238	490	737	(404)	(6)	1,055
Charged-off	(183)	(847)		(272)	(136)	(1,438)
Recoveries	15	125	182	28	178	528
Ending Balance	$ 6,667	$ 14,791	$ 3,446	$ 7,462	$ 358	$ 32,724
Florida						
Beginning balance	$ 1,437	$ 6,062	$ 2,315	$ 5,614	$ 5	$ 15,433
Provision for loan loss	23	270	29	629	(6)	945
Charged-off		(245)	(35)	(1,178)	(2)	(1,460)
Recoveries	25	19	17	63	7	131
Ending Balance	$ 1,485	$ 6,106	$ 2,326	$ 5,128	$ 4	$ 15,049

For the Three Months Ended March 31, 2012 (dollars in thousands)	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Illinois/Indiana						
Beginning balance	$ 9,143	$ 18,605	$ 4,352	$ 6,473	$ 464	$ 39,037
Provision for loan loss	(1,973)	7,660	(317)	(262)	(51)	5,057
Charged-off	(279)	(8,424)	(288)	(861)	(146)	(9,998)
Recoveries	91	269	162	164	78	764
Ending Balance	$ 6,982	$ 18,110	$ 3,909	$ 5,514	$ 345	$ 34,860
Florida						
Beginning balance	$ 1,939	$ 8,413	$ 2,936	$ 6,160	$ 21	$ 19,469
Provision for loan loss	(563)	45	(400)	877	(16)	(57)
Charged-off	(40)	(216)	(69)	(764)		(1,089)
Recoveries	405	35	73	132	7	652
Ending Balance	$ 1,741	$ 8,277	$ 2,540	$ 6,405	$ 12	$ 18,975

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

	As of March 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	$ 589	$ 847	$ 1,050	$ 30	$	$ 2,516
Loans collectively evaluated for impairment	6,078	13,944	2,396	7,432	358	30,208
Ending Balance	$ 6,667	$ 14,791	$ 3,446	$ 7,462	$ 358	$ 32,724
Loans:						
Loans individually evaluated for impairment	$ 5,194	$ 12,060	$ 8,746	$ 5,338	$	$ 31,338
Loans collectively evaluated for impairment	408,769	833,408	63,392	397,524	12,786	1,715,879
Ending Balance	$ 413,963	$ 845,468	$ 72,138	$ 402,862	$ 12,786	$ 1,747,217
Florida						
Amount allocated to:						
Loans individually evaluated for impairment	$	$	$	$ 25	$	$ 25
Loans collectively evaluated for impairment	1,485	6,106	2,326	5,103	4	15,024
Ending Balance	$ 1,485	$ 6,106	$ 2,326	$ 5,128	$ 4	$ 15,049
Loans:						
Loans individually evaluated for impairment	$	$ 5,770	$ 2,593	$ 11,776	$	$ 20,139
Loans collectively evaluated for impairment	11,959	141,731	14,447	93,956	398	262,491
Ending Balance	$ 11,959	$ 147,501	$ 17,040	$ 105,732	$ 398	$ 282,630

	As of December 31, 2012					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
	(dollars in thousands)					
Illinois/Indiana						
Amount allocated to:						
Loans individually evaluated for impairment	$ 265	$ 634	$	$ 140	$	$ 1,039
Loans collectively evaluated for impairment	6,332	14,389	2,527	7,970	322	31,540
Ending Balance	$ 6,597	$ 15,023	$ 2,527	$ 8,110	$ 322	$ 32,579
Loans:						
Loans individually evaluated for impairment	$ 7,479	$ 13,308				