FIRST BUSEY CORP /NV/
Form 10-K
March 08, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**37-1078406**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

100 W. University Avenue

Champaign, Illinois 61820

(Address of principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock ($0.001 par value)	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o Nox

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Act).

Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates on the last business day of the registrant s most recently completed second fiscal quarter was $507.3 million, determined using a per share closing price for the registrant s common stock on that date of $19.71, as quoted on The Nasdaq Global Select Market.

As of March 8, 2016, there were 28,694,852 shares of the registrant s common stock, $0.001 par value, outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2016 Annual Meeting of Stockholders of First Busey Corporation to be held May 24, 2016, are incorporated by reference in this Form 10-K in response to Part III.

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FIRST BUSEY CORPORATION

Form 10-K Annual Report

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Part I

Item 1. Business

Introduction

First Busey Corporation (First Busey or the Company), a Nevada Corporation, is a $4.0 billion financial holding company which was initially organized as a bank holding company in 1980. First Busey conducts a broad range of financial services through its banking and non-banking subsidiaries at multiple locations in Illinois, Florida, Indiana and Missouri. First Busey has one wholly-owned bank subsidiary, Busey Bank (Busey Bank or the Bank), which has locations in Illinois, Indiana and Florida. First Busey is headquartered in Champaign, Illinois, and its common stock is traded on The Nasdaq Global Select Market under the symbol BUSE.

On January 8, 2015, First Busey acquired Herget Financial Corp. (Herget Financial), headquartered in Pekin, Illinois and its wholly-owned bank subsidiary, Herget Bank, National Association (Herget Bank). First Busey operated Herget Bank as a separate banking subsidiary from January 9, 2015 until March 13, 2015, when it was merged with and into Busey Bank. At that time, Herget Bank s branches in Pekin, Illinois became branches of Busey Bank. The operating results of Herget Financial are included with the Company s results of operations since the date of acquisition. See *Note 2 Acquisitions* in the Notes to the Consolidated Financial Statements for further information relating to this acquisition.

On May 20, 2015, the Company s stockholders approved a resolution to authorize the board of directors to implement a reverse stock split of the Company s common stock at a ratio of one-for-three (the Reverse Stock Split). On August 17, 2015, the board of directors authorized the Reverse Stock Split, which became effective on September 8, 2015. All share and per share information has been restated for all prior periods presented in this Annual Report on Form 10-K to give retroactive effect to the Reverse Stock Split.

On December 3, 2015, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Pulaski Financial Corp., a Missouri corporation (Pulaski), pursuant to which Pulaski will merge into First Busey, with First Busey as the surviving corporation (the Merger). It is anticipated that Pulaski Bank, National Association, Pulaski s wholly-owned bank subsidiary (Pulaski Bank), will be merged with and into Busey Bank, at a date following the completion of the holding company merger. At the time of the bank merger, Pulaski Bank s branches will become branches of Busey Bank. As of December 31, 2015, Pulaski had total consolidated assets of $1.65 billion, total loans of $1.41 billion and total deposits of $1.21 billion. The Federal Reserve Bank of Chicago has approved the Merger and it is anticipated to be completed in the first half of 2016, subject to the satisfaction of customary closing conditions in the Merger Agreement and the approval of the stockholders of both Pulaski and First Busey. See *Note 2 Acquisitions* in the Notes to the Consolidated Financial Statements for further information relating to this acquisition.

Subsidiaries of First Busey

First Busey conducts the business of banking and related services through the Bank, asset management, brokerage and fiduciary services through Busey Wealth Management, Inc. (Busey Wealth Management) and Trevett Capital Partners (Trevett), and retail payment

processing through FirsTech, Inc. (FirsTech).

The Bank is an Illinois state-chartered bank organized in 1868 with its headquarters in Champaign, Illinois. The Bank has 28 locations in Illinois, six in southwest Florida and one in Indianapolis, Indiana.

The Bank offers a full range of diversified financial products and services for consumers and businesses, including innovative online and mobile banking capabilities to conveniently serve our customers needs. Services include commercial, agricultural and real estate loans, and retail banking services, including home equity lines of credit, residential real estate and consumer loans, customary types of demand and savings deposits, money transfers, safe deposit services, and IRA, Keogh and other fiduciary services through our branch, ATM and technology-based networks. In addition, our professional farm management and brokerage services are entrusted to care and maximize value for landowners of prime farmland in Illinois.

The Bank s principal sources of income are interest and fees on loans and investments and service fees. Its principal expenses are interest paid on deposits and general operating expenses. The Bank s primary markets are downstate Illinois, southwest Florida, and central Indiana.

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The Bank s loan portfolio is comprised of commercial, commercial real estate, real estate construction, retail real estate, and retail other. As of December 31, 2015, commercial loans comprised approximately 24.9%, commercial real estate comprised approximately 45.8%, real estate construction lending comprised approximately 3.6%, retail real estate comprised approximately 25.1% and retail other loans comprised approximately 0.6%.

Trevett, operating as a division of the Bank, is a private wealth management boutique created to serve clientele in southwest Florida through a highly tenured team of sophisticated wealth management professionals. Trevett builds upon our established presence in Florida and the broad capabilities of our existing Wealth Management operation to provide concierge service and tailored solutions for the accumulation and preservation of capital and generational legacies.

Busey Wealth Management, which is headquartered in Champaign, Illinois, provides asset management, investment and fiduciary services to individuals, businesses and foundations through its subsidiary, Busey Trust Company. As of December 31, 2015, Busey Trust Company had $5.1 billion in assets under care. For individuals, Busey Trust Company provides investment management, trust and estate advisory services and financial planning. For businesses, it provides investment management, business succession planning and employee retirement plan services. For foundations, Busey Trust Company provides investment management, investment strategy consulting and fiduciary services.

Brokerage related services are offered by Busey Investment Services, a division of Busey Trust Company, through a third-party arrangement with Raymond James Financial Services.

FirsTech, which has offices in Decatur, Illinois and Clayton, Missouri, offers the following pay processing solutions: walk-in payment processing for payments delivered by customers to retail pay agents; online bill payment solutions for payments made by customers on a billing company s website; customer service payments for payments accepted over the telephone; direct debit services; electronic concentration of payments delivered by the Automated Clearing House network; money management software and credit card networks; and lockbox remittance processing of payments delivered by mail. FirsTech had approximately 3,000 agent locations in 36 states as of December 31, 2015.

First Busey Corporation also has various other subsidiaries that are not significant to the consolidated entity.

The Company s operations are managed along three operating segments consisting of Banking, Remittance Processing and Wealth Management. See *Note 23 Operating Segments and Related Information* in the Notes to the Consolidated Financial Statements for an analysis of segment operations.

Economic Conditions of Markets

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

Champaign County is home to the University of Illinois Urbana/Champaign (U of I), the University s primary campus. U of I has in excess of 44,000 students. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is home to the North American headquarters for Archer Daniels Midland (ADM), a Fortune 100 company and one of the largest agricultural processors in the world. ADM s presence in Macon County supports many derivative businesses in the agricultural processing arena. Additionally, Macon County is home to Millikin University, and its healthcare providers serve a significant role in the market. McLean County is home to State Farm, Country Financial, Illinois State University and Illinois Wesleyan University. State Farm, a Fortune 100 company, is the largest employer in McLean County, and Country Financial and the universities provide additional stability to a growing area of downstate Illinois. Peoria County is home to Caterpillar, a Fortune 100 company, and Bradley University, in addition to a large healthcare presence serving much of the western portion of downstate Illinois. Caterpillar announced significant restructuring and cost cutting initiatives that began in the third quarter of 2015 and while no substantial direct exposure exists, we will continue to monitor the potential impact to the surrounding community and our customers. The institutions noted above, coupled with a large agricultural sector, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

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The State of Illinois, where the largest portion of the Company s customer base is located, continues to be one of the most troubled of any state in the United States with pension under-funding, a current budget impasse, continued budget deficits and a declining credit outlook. Additionally, the Company is located in markets with significant universities and healthcare companies, which rely heavily on state funding and contracts. A temporary income tax increase passed in 2011 began phasing out in 2015, which may affect the State s revenue. Payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market areas.

During 2015, downward pressure on commodity prices were muted in many areas by above average yields of corn and soybeans in local markets in Illinois. Loans to finance agricultural production and other loans to farmers do not represent a significant portion of our total loan portfolio, with balances of $60.6 million or approximately 2.3% of total loans as of December 31, 2015. Additionally, loans secured by farmland totaled $131.3 million or approximately 5.0% of total loans for the same period. The financial condition of these customers and the agriculture base in our communities is monitored by management on an ongoing basis as appropriate for prudent risk management.

The Company has one banking center in the Indianapolis, Indiana area, which is the most populous city of Indiana with a diverse economy. Many large corporations are headquartered in Indianapolis and it is the host to numerous conventions and sporting events annually.

The Company has six banking centers in southwest Florida. Southwest Florida has shown continuing signs of improvement in areas such as job growth and the housing market over the last few years.

Competition

The Bank competes actively with national and state banks, savings and loan associations and credit unions for deposits and loans mainly in downstate Illinois (primarily Champaign, Ford, Livingston, Macon, McLean, Peoria, and Shelby counties), southwest Florida (primarily Charlotte, Lee and Sarasota counties), and central Indiana (primarily Hamilton and Marion counties). In addition, First Busey and its non-bank subsidiaries compete with other financial institutions, including asset management and trust companies, security broker/dealers, personal loan companies, insurance companies, finance companies, leasing companies, mortgage companies, remittance processing companies, and certain governmental agencies, all of which actively engage in marketing various types of loans, deposit accounts, and other products and services. The Bank competes for real estate and other loans primarily on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

The Bank faces substantial competition in attracting deposits from other commercial banks, savings institutions, money market and mutual funds, credit unions, insurance agencies, brokerage firms, and other investment vehicles. The ability of the Bank to attract and retain deposits depends on its ability to provide investment opportunities that satisfy the requirements of investors as to rate of return, liquidity, risk and other factors. The Bank attracts a significant amount of deposits through its branch offices, primarily from the communities in which those branch offices are located; therefore, competition for those deposits is principally from other commercial banks, savings institutions, and credit unions located in the same communities. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, high-quality customer service, convenient business hours, internet and mobile banking, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

Based on information obtained from FDIC Summary of Deposits dated June 30, 2015, First Busey ranked in the top ten in total deposits in eight Illinois counties: first in Champaign County; fourth in Ford County; eighth in Livingston County; second in Macon County; fifth in McLean County; ninth in Peoria County; second in Shelby County; and third in Tazewell County. Customers for banking services are generally influenced by convenience, quality of service, personal contacts, price of services and availability of products. Although the market share of First Busey varies in different markets, First Busey believes that it effectively competes with other banks, thrifts and financial institutions in the relevant market areas.

Supervision, Regulation and Other Factors

General

Institutions insured by the Federal Deposit Insurance Corporation (the FDIC), like the Bank, as well as their holding companies and their affiliates, are extensively regulated under federal and state law. As a result, First Busey s growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Illinois Department of Financial and Professional Regulation (the DFPR), the Board of Governors of the Federal Reserve System (the Federal Reserve), the FDIC, the Office of the Comptroller of the Currency (the OCC) (upon the anticipated acquisition of Pulaski Bank) and the Bureau of Consumer Financial Protection (the CFPB).

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Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (FASB), securities laws administered by the Securities and Exchange Commission (the SEC) and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (the Treasury) have an impact on the business of First Busey and the Bank.

The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the operations and results of First Busey and the Bank, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of First Busey s business, the kinds and amounts of investments they may make, bank reserve requirements, capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, First Busey s ability to merge, consolidate and acquire, dealings with insiders and affiliates and the Bank s payment of dividends. In the last several years, First Busey and the Bank have experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time, and the reforms have caused First Busey s compliance and risk management processes, and the costs thereof, to increase.

This supervisory and regulatory framework subjects FDIC-insured institutions and their holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to First Busey and the Bank, beginning with a discussion of the continuing regulatory emphasis on capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects First Busey s earnings capabilities. Although capital has historically been one of the key measures of the financial health of banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banking organizations, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements that are

meaningfully more stringent than those in place previously.

Minimum Required Capital Levels

Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated that the Federal Reserve establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. As a consequence, the components of holding company permanent capital known as Tier 1 Capital were restricted to those capital instruments that were considered Tier 1 Capital for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions.

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Because First Busey has assets of less than $15 billion, First Busey is able to maintain its trust preferred proceeds as Tier 1 Capital but First Busey has to comply with new capital mandates in other respects and will not be able to raise Tier 1 Capital in the future through the issuance of trust preferred securities.

The capital standards for First Busey and the Bank changed on January 1, 2015 to add the requirements of Basel III, discussed below. The **minimum** capital standards effective prior to and including December 31, 2014 were:

- A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted average quarterly assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and

- A risk-based capital requirement, consisting of a minimum ratio of Total Capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 Capital to total risk-weighted assets of 4%.

For these purposes, Tier 1 Capital consisted primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total Capital consisted primarily of Tier 1 Capital plus Tier 2 Capital, which included other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and the Bank s allowance for loan losses, subject to a limitation of 1.25% of risk-weighted assets. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations were balance sheet assets and off-balance sheet exposures to which required risk weightings of 0% to 100% were applied.

The Basel International Capital Accords

The risk-based capital guidelines described above are based upon the 1988 capital accord known as Basel I adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as Basel II, for large or core international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Because of Dodd-Frank Act requirements, Basel III essentially layers a new set of capital standards on the previously existing Basel I standards.

The Basel III Rule

In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the Basel III Rule). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory

agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than small bank holding companies (generally bank holding companies with consolidated assets of less than $1 billion which are not publically traded companies).

The Basel III Rule not only increased most of the required minimum capital ratios effective January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that qualified as Tier 1 Capital do not qualify, or their qualifications will change. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking organization s Common Equity Tier 1 Capital.

The Basel III Rule requires **minimum** capital ratios beginning January 1, 2015, as follows:

- A new ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;

- An increase in the minimum required amount of Tier 1 Capital to 6% of risk-weighted assets;

- A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and

- A minimum leverage ratio of Tier 1 Capital to total quarterly adjusted average assets equal to 4% in all circumstances.

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Not only did the capital requirements change but the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios changed as well. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the Prompt Corrective Action rules. The phase-in periods commenced on January 1, 2016 and extend until 2019.

Well-Capitalized Requirements

The ratios described above are minimum standards in order for banking organizations to be considered adequately capitalized under the Prompt Corrective Action rules discussed below. Bank regulatory agencies uniformly encourage banking organizations to hold more capital and be well-capitalized and, to that end, federal law and regulations provide various incentives for such organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Moreover, the Federal Reserve s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

- A new Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A minimum ratio of Tier 1 Capital to total risk-weighted assets of 8% (6% under Basel I);
- A minimum ratio of Total Capital to total risk-weighted assets of 10% (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total quarterly adjusted average assets of 5% or greater.

In addition, banking organizations that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking organizations maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to:

- Common Equity Tier 1 Capital ratio to risk-weighted assets of 7%,
- Tier 1 Capital to total risk-weighted assets of 8.5%; and
- Total Capital to total risk-weighted assets of 10.5%.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer. As of December 31, 2015: (i) the Bank was not subject to a directive from the FDIC to increase its capital and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2015, First Busey had regulatory capital in excess of the Federal Reserve s requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action

An FDIC-insured institution s capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators powers depends on whether the institution in question is adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring dismissal of senior executive officers or directors; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

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Regulation and Supervision of First Busey

General

First Busey, as the sole stockholder of the Bank, is a bank holding company. It will also be the sole stockholder of Pulaski Bank when that acquisition is consummated. As a bank holding company, First Busey is registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the BHCA). First Busey is legally obligated to act as a source of financial and managerial strength to its bank subsidiaries and to commit resources to support its banks in circumstances where it might not otherwise do so. First Busey is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of its operations and such additional information regarding its operations as the Federal Reserve may require.

Acquisitions, Activities and Change in Control

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see Regulatory Emphasis on Capital above.

The BHCA generally prohibits First Busey from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be so closely related to banking ... as to be a proper incident thereto. This authority would permit First Busey to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. First Busey has elected to be, and continues to operate as, a financial holding company.

Federal law also prohibits any person or company from acquiring control of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. Control is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements

Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as impacted by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see Regulatory Emphasis on Capital above.

SBLF Redemption

Under the Small Business Jobs Act of 2010, the Treasury established a Small Business Lending Fund (the SBLF), a $30 billion fund that encouraged lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion.

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First Busey applied for the SBLF program, was accepted, and on August 25, 2011, entered into a Securities Purchase Agreement with the Treasury, pursuant to which it issued and sold to the Treasury 72,664 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C, having a liquidation preference of $1,000 per share, for aggregate proceeds of $72.7 million. First Busey redeemed the shares on December 18, 2015 and exited the SBLF program.

Dividend Payments

First Busey s ability to pay dividends to its stockholders may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a Nevada corporation, First Busey is subject to the limitations of Nevada law, which allows First Busey to pay dividends unless, after such dividend, (i) First Busey would not be able to pay its debts as they become due in the usual course of business or (ii) First Busey s total assets would be less than the sum of its total liabilities plus any amount that would be needed, if First Busey were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of stockholders whose rights are superior to the rights of the stockholders receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders if: (i) its net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with its capital needs and overall current and prospective financial condition; or (iii) it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See Regulatory Emphasis on Capital above.

Monetary Policy

The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation

First Busey s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). Consequently, First Busey is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance

The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that affect most U.S. publicly traded companies. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and authorized the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company s proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Regulation and Supervision of the Bank

General

The Bank is an Illinois-chartered bank. As an Illinois-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering authority for Illinois banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve System (nonmember banks). Pulaski Bank, as a national bank, will add the OCC as a bank regulatory agency for that bank upon its anticipated acquisition until the time Pulaski Bank is merged with and into the Bank. The deposit accounts of the Bank and Pulaski Bank are insured by the FDIC s Deposit Insurance Fund (DIF) to the maximum extent provided under federal law and FDIC regulations. Except as otherwise indicated, Pulaski Bank is subject to virtually the same regulatory system as the Bank and the discussion below will be equally applicable to it as a subsidiary of First Busey upon acquisition, which is subject to the satisfaction of customary closing conditions and the approval of the appropriate regulatory authorities.

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Deposit Insurance

FDIC-insured institutions are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. An institution s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an FDIC-insured institution is placed in one of four risk categories each quarter. An institution s assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking.

Amendments to the Federal Deposit Insurance Act revised the assessment base against which an FDIC-insured institution s deposit insurance premiums paid to the DIF are calculated to be its average consolidated total assets less its average tangible equity. This change shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act altered the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions. In lieu of dividends, the FDIC has adopted progressively lower assessment rate schedules that will take effect when the reserve ratio exceeds 1.15%, 2%, and 2.5%. As a consequence, premiums will decrease once the 1.15% threshold is exceeded. The FDIC has until September 30, 2020 to meet the 1.35% reserve ratio target. Several of these provisions could increase the Bank s FDIC deposit insurance premiums. The Dodd-Frank Act also permanently established the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor.

FICO Assessments

In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation (FICO) assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO s authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO s outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was 0.60 basis points (60 cents per $100 dollars of assessable deposits).

Supervisory Assessments

All Illinois banks are required to pay supervisory assessments to the DFPR to fund the operations of that agency and national banks pay supervisory assessments to the OCC. The amount of the assessment is calculated on the basis of the Bank s total assets. During the year ended December 31, 2015, the Bank paid supervisory assessments to the DFPR totaling $0.3 million.

Capital Requirements

Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see Regulatory Emphasis on Capital above.

Liquidity Requirements

Liquidity is a measure of the ability and ease with which assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio (LCR), is designed to ensure that the institution has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the Net Stable Funding Ratio, is designed to promote more medium- and long-term funding of the assets and activities of institutions over a one-year horizon. These tests provide an incentive for institutions to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions. The Bank continues to monitor regulatory developments with consideration for potential applicability to financial institutions below the current regulatory thresholds.

Stress Testing

A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis. In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators, and began recommending portfolio stress testing as a sound risk management practice for community banks. Although stress tests are not officially required for banks with less than $10 billion in assets, they have become part of annual regulatory exams even for banks small enough to be officially exempted from the process. The FDIC now recommends stress testing as means to identify and quantify loan portfolio risk and the Bank is reviewing this process.

Dividend Payments

The primary source of funds for First Busey is dividends from the Bank. Under the Illinois Banking Act, the Bank generally may not pay dividends in excess of its net profit. Notwithstanding the availability of funds for dividends, the FDIC and the DFPR may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See Regulatory Emphasis on Capital above. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2015. However, as of December 31, 2015, the Bank was in a retained deficit position and no amount was available to be paid as dividends by the Bank. With prior approval from its regulators, however, an Illinois state-chartered bank in this situation may be able to reduce its capital stock, by amending its charter to decrease the authorized number of shares, and then make a subsequent distribution to its holding company. Using this approach, and with the approval of its regulators, Busey Bank distributed $50.0 million to the Company on January 22, 2013, distributed $60.0 million to the Company on October 22, 2014 and distributed $60.0 million to the Company on December 8, 2015. The Company will continue to evaluate the appropriateness of future capital distributions.

State Bank Investments and Activities

The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the Bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Insider Transactions

FDIC-insured banks are subject to certain restrictions imposed by federal law on covered transactions between the bank and its affiliates. First Busey is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to First Busey, investments in the stock or other securities of First Busey and the acceptance of the stock or other securities of First Busey as collateral for loans made by the Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of covered transactions and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of First Busey and its subsidiaries, to principal stockholders of First Busey and to related interests of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of First Busey or the Bank, or a principal stockholder of First Busey, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management

The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

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In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator s order is cured, the regulator may restrict the FDIC-insured institution s rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

Branching Authority

Illinois banks, such as the Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves

Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2016: the first $15.2 million of otherwise reservable balances are exempt from reserves and have no reserve requirement; for transaction accounts aggregating more than $15.2 million to $110.2 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $110.2 million, the reserve requirement is 3% up to $110.2 million plus 10% of the aggregate amount of total transaction accounts in excess of $110.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Federal Home Loan Bank Membership

The Bank is a member of the Federal Home Loan Bank of Chicago (the FHLB), which serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

Community Reinvestment Act Requirements

The Community Reinvestment Act requires FDIC-insured banks to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank s record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank s effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act), along with anti-money laundering and bank secrecy laws (AML-BSA), are designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for

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FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The laws mandate financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification and ongoing due diligence programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation among FDIC-insured institutions and law enforcement authorities.

Concentrations in Commercial Real Estate

Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance (CRE Guidance) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk. Based on the Bank s loan portfolio as of December 31, 2015, the Bank does not exceed these guidelines.

Consumer Financial Services

The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit unfair, deceptive or abusive acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because residential mortgages were a significant factor contributing to the global financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including all FDIC-insured institutions, in an effort to strongly encourage lenders to verify a borrower s ability to repay, while also establishing a presumption of compliance for certain qualified mortgages. In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans have not complied with the ability-to-repay standards. First Busey does not currently expect the CFPB s rules to have a significant impact on its operations, except for higher compliance costs.

Busey Wealth Management

Busey Wealth Management is an Illinois corporation that operates under a certificate of authority to exercise trust powers issued by the DFPR. As such, Busey Wealth Management is subject to the examination, supervision, reporting and enforcement requirements established for trust companies by the DFPR. Additionally, because Busey Wealth Management is a wholly-owned subsidiary of First Busey, the Federal Reserve, as the primary federal regulator of First Busey, has the authority to conduct such examinations of Busey Wealth Management as the Federal Reserve deems necessary. Busey Wealth Management is required to maintain capital at the level determined by the DFPR to be necessary for the safe and sound operation of Busey Wealth Management. Like Busey Bank, Busey Wealth Management is required to pay supervisory assessments to the DFPR, which, for the year ended December 31, 2015, were insignificant.

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Employees

As of December 31, 2015, First Busey and its subsidiaries had a total of 795 employees (full-time equivalents).

Executive Officers

Following is a description of the business experience for at least the past five years of our executive officers.

Van A. Dukeman. Mr. Dukeman, age 57, has served as a Director, Chief Executive Officer and President of First Busey since August 2007. Effective February 28, 2009 through March 31, 2010, Mr. Dukeman also served as the Chief Executive Officer and President of the Bank. Prior to August 2007, Mr. Dukeman served as a Director, Chief Executive Officer and President of Main Street Trust, Inc. (Main Street Trust) until its merger with First Busey.

Curt A. Anderson. Mr. Anderson, age 60, was appointed Interim President and Chief Executive Officer of Busey Wealth Management in February 2016. Prior to that appointment, he had served as Executive Vice President and Senior Managing Director at Busey Wealth Management.

Robin N. Elliott. Mr. Elliott, age 39, was appointed Chief Operating Officer in February 2016. He will continue to serve as Chief Financial Officer of First Busey, which was effective on January 1, 2014, as the Company conducts a search to fill the Chief Financial Officer role. Mr. Elliott had previously served as Director of the Business Banking Group of the Bank since November 2011. Prior to that appointment, he had served as Director of Finance & Treasury since joining the organization in 2006.

Barbara J. Harrington. Mrs. Harrington, age 56, has served as Chief Risk Officer of First Busey since March 2010, prior to which she had served as Chief Financial Officer of First Busey since March 1999. She also served as Controller and Senior Vice President of the Bank from December 1994 to March 1999, and has served in various financial and accounting positions since joining the organization in 1991.

Howard F. Mooney II. Mr. Mooney, age 51, has served as President and Chief Executive Officer of FirsTech Inc., our payment processing subsidiary, since 2000. In addition, Mr. Mooney has served as Chief Information Officer of First Busey since January 1, 2014. Prior to our August 2007 merger, FirsTech was a subsidiary of Main Street Trust.

Robert F. Plecki, Jr. Mr. Plecki, age 55, has served as Chief Credit Officer of First Busey since March 2010. Mr. Plecki previously served as President & Chief Executive Officer of Busey Wealth Management from October 2013 until February 2016 and Chief Operating Officer of First Busey from October 2012 until February 2016. Prior to March 2010, he had served as Executive Vice President of our southwest Florida market since early 2009. Prior to that he served as Executive Vice President of our Champaign-Urbana market following First Busey s merger with Main Street Trust in 2007, and, prior to the merger, had served as President of Main Street Bank & Trust Retail Banking since 2004.

John J. Powers. Mr. Powers, age 60, has served as General Counsel of First Busey since December 2011. Prior to that, he was a shareholder of Meyer Capel, P.C., a law firm based in Champaign, Illinois, since 1998.

Amy L. Randolph. Mrs. Randolph, age 41, was appointed Executive Vice President and Chief Brand Officer in March 2014. Prior to that appointment, she served as Executive Vice President of Growth Strategies.

Christopher M. Shroyer. Mr. Shroyer, age 50, has served as President and Chief Executive Officer of the Bank since March 2010, prior to which he had served as Executive Vice President of our East Region since early 2009. Prior to 2009, he served as Executive Vice President of our Decatur market following First Busey s merger with Main Street Trust in 2007, and, prior to the merger, had served as Executive Vice President of Main Street Bank & Trust Commercial Banking since 2004.

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Securities and Exchange Commission Reporting and Other Information

First Busey s web site address is www.busey.com. We make available on this web site our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, as soon as reasonably practicable after such reports are filed or furnished with the SEC, and in any event, on the same day as such filing with the SEC. Reference to this web site does not constitute incorporation by reference of the information contained on the web site and should not be considered part of this document.

First Busey has adopted a code of ethics applicable to our employees, officers, and directors. The text of this code of ethics may be found under Investor Relations on our website.

Special Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in or incorporated by reference into this Annual Report on Form 10-K that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. These forward-looking statements are covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and estimates and describe our future plans, strategies and expectations, can generally be identified by the use of the words may, will, should, could, would, go plan, potential, estimate, project, believe, intend, anticipate, expect, target, aim and similar expres forward-looking statements include statements relating to our projected growth, anticipated future financial performance, financial condition, credit quality and management s long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, our business and growth strategies and any other statements that are not historical facts.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. Factors that could have a material adverse effect on our financial condition, results of operations and future prospects can be found under Item 1A Risk Factors in this Annual Report on Form 10-K and elsewhere in our periodic and current reports filed with the SEC. These factors include, but are not limited to, the following:

- the strength of the local and national economy;
- changes in state and federal laws, regulations and governmental policies concerning First Busey s general business (including the impact of the Dodd-Frank Act and the extensive regulations to be promulgated thereunder, as well as the Basel III Rules);
- changes in interest rates and prepayment rates of First Busey s assets;
- increased competition in the financial services sector and the inability to attract new customers;

• changes in technology and the ability to develop and maintain secure and reliable electronic systems;

• the loss of key executives or employees;

• changes in consumer spending;

• unexpected results of acquisitions (including the planned acquisition of Pulaski), which may include failure to realize the anticipated benefits of the acquisition, possible termination of the Merger Agreement causing the acquisition to not be completed and the possibility that the transaction costs may be greater than anticipated;

• unexpected outcomes of existing or new litigation involving First Busey;

• the economic impact of any future terrorist threats or attacks;

• the economic impact of exceptional weather occurrences such as tornadoes, hurricanes, floods, and blizzards;

• changes in accounting policies and practices; and

• other factors and risks described under Risk Factors herein.

Because of those risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations are not necessarily indicative of our future results.

You should not place undue reliance on any forward-looking statements, which speak only as of the dates on which they were made. We are not undertaking an obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under federal securities law. We qualify all of our forward-looking statements by these cautionary statements.

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Item 1A. Risk Factors

This section highlights the risks management believes could adversely affect our financial performance. Additional possible risks that could affect the Company adversely and cannot be predicted may arise at any time. Other risks that are immaterial at this time may also have an adverse impact on our future financial condition.

Economic and Market Risks

Conditions in the financial market and economic conditions, including conditions in the states in which it operates, generally may adversely affect the Company s business.

In 2008 and 2009, the United States economy faced a severe economic crisis, including a major recession from which it is still recovering. Many businesses and local governments continue to experience financial difficulty and while reflecting improvement, unemployment levels in certain sectors remain elevated. There can be no assurances that these conditions will continue to improve. In addition, factors such as ongoing federal budget negotiations, political differences at the federal levels of the U.S. government, actions taken by the Federal Reserve System, the level of U.S. debt and global economic influences could all have destabilizing effects on financial markets and produce heightened levels of volatility.

The Company s general financial performance is highly dependent upon the business environment in the markets where it operates and in particular, the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services it offers. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters; or a combination of these or other factors.

For several years, the economic environment had been adverse for many households and businesses in the United States and worldwide. While economic conditions have improved since the recession, there can be no assurance that this improvement will continue. Economic pressures on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of the Company s loans and our financial condition and results of operations.

The Company s financial performance is also affected by the condition of the markets it conducts business in. The financial condition of the State of Illinois, in which the largest portion of the Company s customer base resides, is among the most troubled of any state in the United States with credit downgrade concerns, pension under-funding, a current budget impasse, budget deficits and political standoffs. State budget restructuring to improve its financial condition may have negative financial effects on local governments and businesses, their employees, and directly and indirectly the Company s customers. Conversely, a lack of state budget restructuring to achieve budget balance and growing debt burden may also have negative financial effects on local governments and businesses, their employees, and directly and indirectly the Company s customers.

The Company is located in markets with significant university and healthcare presence, which rely heavily on state funding and contracts. Payment delays by the State of Illinois to its vendors and government sponsored entities may have significant, negative effects on the Company s primary market areas, which could in turn adversely affect its financial condition and results of operations. In addition, adverse changes in agribusiness and capital goods exports could materially adversely affect its downstate Illinois markets, which are heavily reliant upon these industries. In addition, continued population outflow from the State of Illinois could affect the Company s ability to attract and retain customers.

Further, southwest Florida was particularly impacted by the downturn in economic conditions in recent years. Although recovering, another decline in economic conditions in Florida, particularly within the Company s primary market area, could adversely affect its business in that market. Another downturn in Illinois and Florida markets could result in a decrease in demand for products and services, an increase in loan delinquencies and defaults, high or increased levels of problem assets and foreclosures and reduced wealth management fees resulting from lower asset values.

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Market volatility and changes in interest rates could have an adverse effect on the Company.

In certain recent periods, the capital and credit markets experienced heightened volatility and disruption. In some cases, the markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial condition or performance. If the capital and credit markets experience these heightened levels of disruption and volatility again, both the Company and its customers ability to maintain or access capital could be adversely affected which could have an impact on the Company s business, financial condition and results of operations.

Changes in interest rates could affect the level of assets and liabilities held on the Company s balance sheet and the revenue that the Company earns from net interest income, as earnings and profitability depend significantly on our net interest income. Net interest income represents the difference between interest income and fees earned on interest-earning assets such as loans and investment securities and interest expense incurred on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond the Company s control, including general economic conditions and policies of various governmental and regulatory agencies, including the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect the Company s ability to originate loans and obtain deposits and the fair value of the Company s financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investment securities, the Company s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company s business, financial condition, and results of operation. Interest rates paid on deposit products declined significantly in recent years and while interest rates increased slightly in 2015 for the first time in nine years, future increases, if they occur, could create uncertainty in financial markets. Such uncertainty or market fluctuations could negatively affect customer s financial stability and ultimately, their ability to repay loan commitments.

The Company s wealth management business may also be negatively impacted by changes in general economic conditions and the conditions in the financial and securities markets, which could affect the values of assets held under care. Management contracts generally provide for fees payable for wealth management services based on the market value of assets under care. Because most of the Company s contracts provide for a fee based on market values of securities, declines in securities prices may have an adverse effect on the Company s results of operations from this business. Market declines and reductions in the value of customers wealth management accounts, could also result in the loss of wealth management customers, including those who are also banking customers.

The Company could recognize losses on securities held in its securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Factors beyond the Company s control may significantly influence the fair value of securities in its portfolio and may cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by the Company are generally subject to decreases in market value when interest rates rise. A change in the fair value of securities could cause an other-than-temporary impairment (OTTI) in future periods and result in realized losses. The process for determining whether impairment is an OTTI usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Downgrades in the credit ratings of one or more insurers that provide credit enhancements for the Company s state and municipal securities portfolio may have an adverse impact on the market for and valuation of these types of securities.

The Company invests in tax-exempt state and local municipal securities, some of which are insured by monoline insurers. In recent years, several of these insurers have come under scrutiny by rating agencies. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of the Company s investment securities. A downgrade or a default by an issuer could adversely affect the Company s liquidity, financial condition and results of operations.

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Regulatory and Legal Risks

Recent legislative and regulatory reforms applicable to the financial services industry, as well as heightened focus on particular regulations, may have a significant impact on the Company s business, financial condition and results of operations.

The laws, regulations, rules, policies and regulatory interpretations governing the Company continue to evolve and may change significantly over time as Congress and various regulatory agencies react to adverse economic conditions or other matters. The global financial crisis of 2008-2009 served as a catalyst for a number of significant changes in the financial services industry, including the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which increases both the amount and quality of capital that financial institutions must hold. The implementation of these provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of the Company s business activities and may change certain business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose the Company to additional expense, including increased compliance costs.

These rule and regulatory changes may also require the Company to invest significant management attention and resources so as to make necessary changes to operations in order to comply. Legislative and regulatory changes may limit our ability to promote our objectives through compensation and incentive programs and could materially and adversely affect our business, financial condition and results of operations. The Company s management has reviewed the provisions of the Dodd-Frank Act, the Basel III Rules, and other regulatory mandated changes, many of which have become effective or are to be phased-in over the next several years, and assessed the probable impact on operations. However, the long-term cumulative effect of these changes on the financial services industry, in general, and the Company in particular, is uncertain at this time.

In addition to the expense and uncertainty related to increased regulation, the financial services industry is facing more intense scrutiny from regulatory agencies in the examination process and more aggressive enforcement of regulations on both the federal and state levels, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with Bank Secrecy Act, anti-money laundering laws, and the USA Patriot Act, which focuses on money laundering in the form of terrorist financing. Federal law grants substantial enforcement powers to financial services regulators including, among other things, the ability to assess significant civil or criminal monetary penalties, fines or restitution; to issue cease and desist orders; and to initiate injunctive actions against banking organizations. These enforcement actions may be initiated for violations of laws or regulations and for unsafe or unsound practices. If the Company were the subject of an enforcement action, it could have an adverse impact on the Company.

Credit and Lending Risks

Heightened credit risk associated with lending activities may result in insufficient loan loss provisions, which could have material adverse effect on the Company s results of operations and financial condition.

There are risks in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from economic and market conditions. The Company attempts to reduce its credit risk through loan application approval procedures, monitoring the concentration of loans

within specific industries and geographic location, and periodic independent reviews of outstanding loans by its loan review and audit departments as well as external parties. However, while such procedures help reduce risks, they cannot be expected to completely eliminate the Company s credit risks. Borrowers may experience difficulties in repaying their loans for any of a variety of reasons resulting in a rise in the level of nonperforming loans, charge-offs and delinquencies and/or a need for increases in the provision for loan losses.

The Company establishes an allowance for loan losses and maintains it at a level considered adequate by management to absorb probable loan losses based on a continual analysis of the Company s portfolio and market environment. The allowance for loan losses represents the Company s estimate of probable losses in the portfolio at each balance sheet date and is based upon other relevant information available. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified. Changes to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in the relevant market areas. The actual amount of loan losses is affected by changes in economic, operating and other market conditions, which may be beyond the Company s control, and such losses may exceed current estimates.

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Although management believes the allowance for loan losses is adequate to absorb losses on existing loans that may become uncollectible, management cannot guarantee that additional provisions for loan losses will not be required in the future. Additional provision could be recorded, either as a result of management s decision or as a requirement by regulators, to further supplement the allowance for loan losses, particularly if economic conditions unfold in a manner which differs significantly from what management currently expects. Additional provisions to the allowance for loan losses and loan losses in excess of the Company s allowance for loan losses may adversely affect its business, financial condition and results of operations.

Non-performing assets take significant time to resolve and adversely affect the Company s results of operations and financial condition, and could result in further losses in the future.

The Company s non-performing assets adversely affect its net income in various ways. While the Company pays interest expense to fund non-performing assets, it does not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting its income and returns on assets and equity, and its loan administration costs increase and the Company s efficiency ratio is adversely affected. When the Company takes collateral in foreclosures and similar proceedings, it is required to mark the collateral to its then-fair market value, which, when compared to the outstanding balance of the loan, may result in a loss. These non-performing loans and other real estate owned also increase its risk profile and the capital its regulators believe is appropriate in light of such risks. The resolution of non-performing assets requires significant time commitments from management, which can be detrimental to the performance of their other responsibilities. The Company cannot guarantee that it will not experience increases in non-performing loans in the future, and its non-performing assets may result in further losses in the future.

Concentrations of credit and market risk could increase the potential for significant losses.

The Company may have higher credit risk, or experience higher credit losses, to the extent its loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. A significant portion of the Company s loan portfolio is made up of commercial and industrial loans and secured by real estate. Thus, deterioration in economic conditions or real estate values could result in higher credit costs and losses to the Company.

The Company s commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, which the Company requires whenever appropriate on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. As a result of the larger average size of each commercial loan as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on the Company s financial condition and results of operations.

A significant portion of the Company s loans are collateralized by real estate. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more markets could increase the credit risk associated with the Company s loan portfolio, and could result in losses which would adversely affect profitability. Such changes especially affected the Company s southwest Florida market in recent years during the financial crisis. Adverse changes in the economy affecting real estate values and liquidity generally, and in downstate Illinois and

southwest Florida specifically, could significantly impair the value of property pledged as collateral on loans and affect the Company s ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan which would result in losses.

Credit risk associated with concentration of securities in the Company s investment portfolio may increase the potential for loss.

The Company s investment portfolio consists, in part, of securities issued by government or government sponsored agencies and non-government entities. A downturn in the financial condition of the issuers, the performance of the underlying collateral, or the financial condition of the individual mortgagors with the respect of the underlying securities could create results such as rating agency downgrades of the securities and default by issuers or individual mortgagors. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses, which could adversely affect the Company s financial condition and results of operations.

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Real estate construction, land acquisition and development loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and the Company may be exposed to significant losses on loans for these projects.

Construction, land acquisition, and development loans involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If the Company s appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, there may be inadequate security for the repayment of the loan upon completion of construction of the project. If the Company is forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that it will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, the Company may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while it attempts to dispose of it.

Capital and Liquidity Risks

The Company is required to maintain capital to meet regulatory requirements, and if it fails to maintain sufficient capital, whether as a result of losses, inability to raise additional capital or otherwise, its financial condition, liquidity, and results of operations, as well as its ability to maintain regulatory compliance would be adversely affected.

First Busey, the Bank and Busey Wealth Management must meet regulatory capital requirements and maintain sufficient liquidity. The Company s ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside the Company s control, and on its financial condition and performance. Accordingly, the Company cannot guarantee that it will be able to raise additional capital if needed or on terms acceptable to the Company. If it fails to meet these capital and other regulatory requirements, its financial condition, liquidity and results of operations would be materially and adversely affected.

The Company s failure to continue to maintain capital ratios in excess of the amounts necessary to be considered well-capitalized for bank regulatory purposes could affect customer confidence, its ability to grow, its costs of funds and FDIC insurance costs, its ability to pay dividends to its stockholders or on outstanding stock, its ability to make acquisitions, and its business, results of operations and financial condition. Furthermore, under FDIC rules, if the Company ceases to meet the requirements to be considered a well-capitalized institution for bank regulatory purposes, the interest rates it pays on deposits and its ability to accept, renew or rollover deposits, particularly brokered deposits, may be restricted.

Liquidity risks could affect operations and jeopardize the Company s business, financial condition and results of operations.

Liquidity is essential to the Company s business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on liquidity. The Company s primary sources of funds consist of deposits and funds from sales of investment securities, investment maturities and sales, and cash from operations. Additional liquidity is available through repurchase agreements, brokered deposits, and the ability to borrow from the Federal Reserve Bank and the FHLB. Access to funding sources in amounts adequate to finance or capitalize the Company s activities or on terms that are acceptable to the Company could be impaired by factors that affect it directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

During periods of economic turmoil, the financial services industry and the credit markets generally may be materially and adversely affected by significant declines in asset values and depressed levels of liquidity. These and other factors could negatively affect the Company s ability to engage in routine funding and other transactions with other financial institutions, lead to market-wide liquidity problems, loss of depositor, creditor, and counterparty confidence which could lead to losses or defaults by the Company or by other institutions. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size, limited analyst coverage, and lack of credit rating resulting from significant expense required to obtain it.

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Any decline in available funding and/or capital could adversely impact the Company s ability to originate loans, invest in securities, meet its expenses, pay dividends to its stockholders, or meet deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

The soundness of other financial institutions could negatively affect the Company.

The Company s ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by the Company or by other institutions. The Company could experience increases in deposits and assets as a result of the difficulties or failures of other banks, which would increase the funding needed to support its growth.

Competitive and Strategic Risks

The Company faces strong competition from financial service companies and other companies that offer banking and wealth management services, which could harm its business.

The Company currently conducts its banking operations primarily in downstate Illinois and southwest Florida. In addition, it currently offers fiduciary and wealth management services through Trevett Capital Partners and Busey Wealth Management, which account for an important portion of its noninterest income. Many competitors offer the same, or a wider variety of, banking and wealth management services within the Company s market areas. These competitors include national banks, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in the Company s market areas. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks. For example, customers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Customers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Increased competition in the Company s markets may result in reduced loans, deposits and commissions and brokers fees, as well as reduced net interest margin and profitability. Ultimately, the Company may not be able to compete successfully against current and future competitors. If the Company is unable to attract and retain banking and wealth management customers, it may be unable to grow its loan and deposit portfolios or its wealth management commissions, which could adversely affect its business, results of operations and financial condition.

First Busey may fail to realize the anticipated benefits of the Merger.

First Busey and Pulaski have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend on, among other things, First Busey s ability to combine the businesses of

First Busey and Pulaski in a manner that permits growth opportunities, including, among other things, enhanced revenues and revenue synergies, an expanded market reach and operating efficiencies, and does not materially disrupt the existing customer relationships of First Busey or Pulaski nor result in decreased revenues due to any loss of customers. If First Busey is not able to successfully achieve these objectives, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected. Moreover, First Busey will be exposed to potential asset and credit quality risks and unknown or contingent liabilities of Pulaski. If these issues or liabilities exceed its estimates, First Busey s earnings and financial condition may be materially and adversely affected. Failure to achieve the anticipated benefits of the Merger could result in increased costs, decreases in the amount of expected revenues and diversion of management s time and energy and could have an adverse effect on the surviving corporation s business, financial condition, operating results and prospects.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the Merger. Those conditions include: approval of the Merger Agreement and the transactions it contemplates by Pulaski and First Busey stockholders, absence of orders prohibiting completion of the Merger, approval of the issuance of First Busey common stock, as applicable, for listing on The NASDAQ Global Select Market, the accuracy of the representations and warranties by both parties (subject to the materiality standards set forth in the Merger Agreement) and the performance by both

parties of their covenants and agreements, and the receipt by both parties of legal opinions from their respective tax counsels. These conditions to the closing of the Merger may not be fulfilled in a timely manner or at all, and, accordingly, the Merger may not be completed. In addition, the parties can mutually decide to terminate the Merger Agreement at any time, before or after stockholder approval, or First Busey or Pulaski may elect to terminate the Merger Agreement in certain other circumstances.

First Busey will incur transaction and integration costs in connection with the Merger.

First Busey has incurred and expects that it will incur significant, non-recurring costs in connection with consummating the Merger. In addition, First Busey will incur integration costs following the completion of the Merger as First Busey integrates the businesses of the two companies, including facilities and systems consolidation costs and employment-related costs. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time. First Busey may also incur additional costs to maintain employee morale and to retain key employees. First Busey will also incur significant legal, financial advisor, accounting, banking and consulting fees, fees relating to regulatory filings and notices, SEC filing fees, printing and mailing fees and other costs associated with the merger.

Accounting and Tax Risks

Financial statements are created, in part, by assumption and methods used by management, which, if incorrect, could cause unexpected losses in the future.

The Company s financial performance is impacted by accounting principles, policies and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of assets or liabilities and financial results. Certain accounting policies are critical and require management to make difficult, subjective and complex judgments about matters that are inherently uncertain, and materially different amounts could be reported under different conditions or using different assumptions. If such estimates or assumptions underlying the Company s financial statements are incorrect, it may experience material losses.

One such assumption and estimate is the valuation analysis of its goodwill. Although the Company s analysis does not indicate impairments exist; it could be required to perform additional goodwill impairment assessments on at least an annual basis, and perhaps more frequently, which could result in further goodwill impairment charges. Any future goodwill impairment charge, on the current goodwill balance or future goodwill arising out of acquisitions, such as the anticipated acquisition of Pulaski set to occur in 2016, that the Company is required to take could have a material adverse effect on the results of operations by reducing net income or increasing net losses.

The Company is subject to changes in accounting principles, policies or guidelines.

Periodically, agencies such as the Financial Accounting Standards Board or the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of the Company s financial statements. These changes are beyond the Company s control, can be difficult to predict and could materially impact it reports its financial condition and results of operations. Changes in these

standards are continuously occurring, and given recent economic conditions, more drastic changes may occur. The implementation of such changes could have a material adverse effect on the Company s financial condition and results of operations.

The Company may not realize tax benefits which could adversely affect our results of operations.

At December 31, 2015, the Company had recorded $21.6 million in deferred tax assets. Deferred tax assets are designed to reduce subsequent period s income tax expense and arise, in part, as a result of net loss carry-overs, allowance for loan losses, stock-based compensation, and deferred compensation. Such items are recorded as assets when it is anticipated the asset will be used in future periods. Valuation allowance is established when it is unlikely the assets will be realized. Significant judgment by management about matters that are by nature uncertain is required to record a deferred tax asset and establish a valuation allowance.

In evaluating the need for a valuation allowance, the Company estimated future taxable income based on management forecasts and tax planning strategies that may be available to us. If future events differ significantly from our current forecasts, it may need to establish a valuation allowance against its net deferred tax assets, which would have a material adverse effect on its results of operations and financial condition. In addition, current portions of the net deferred tax assets relate to tax-effected state net operating loss carry-forward, the utilization of which may be further limited in the event of certain material changes in its ownership.

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In addition, changes in ownership could further limit the Company s realization of deferred tax assets. The ultimate realization of deferred tax asset is dependent upon the generation of future taxable income during the periods prior to the expiration of the related net operating losses and the limitation of Section 382 of the Internal Revenue Code. Section 382 of the Code contains rules that limit the ability of a company that undergoes an ownership change to utilize its net operating loss carry-forwards and certain built-in losses recognized in years after the ownership change. The Company anticipates issuing a significant amount of common stock in connection with the acquisition of Pulaski. While this will not affect an ownership change under Section 382, it may make it more likely that an ownership change under Section 382 will occur in the future. If the Company undergoes an ownership change for purposes of Section 382 as a result of future transactions involving its common stock, its ability to use any of our net operating loss carry-forwards, tax credit carry-forwards or net unrealized built-in losses at the time of ownership change would be subject to the limitations of Section 382 on its use against future taxable income. The limitation may affect the amount of the Company s deferred income tax asset and, depending on the limitation, a portion of its built-in losses, any net operating loss carry-forwards or tax credit carry-forwards could expire before it would be able to use them. This could adversely affect the Company s financial position, results of operations and cash flow.

Operational Risks

The Company relies on the integrity of its operating systems and employees, and those of third parties and certain failures of such systems or error by such employees or customers could materially and adversely affect the Company s operations.

Communications and information systems are essential to conduct the Company s business, as it uses such systems to manage customer transactions and relationships, the general ledger, and deposits, loans, and investments. However, the computer systems and network infrastructure the Company uses could be vulnerable to unforeseen problems as operations are dependent upon the protection of computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, cybersecurity attacks, viruses and other disruptive problems caused by hackers.

In addition, the Company outsources certain processing functions to third-party providers. If third-party providers encounter difficulties or if the Company has difficulty in communicating with them, the ability to adequately process and account for customer transactions may be affected and business operations may be adversely impacted. If third-party providers are unable to meet service expectations, experience system or processing failure, or incur disruptions affecting operations, results could adversely impact the Company. The Company follows certain due diligence procedures in reviewing and vetting its third-parties, however, it cannot control their actions.

Although the Company has procedures in place to prevent or limit the effects of any of these potential problems and intends to continue to implement security technology and establish operational procedures to prevent such occurrences, technology-related disruptions, failures and cybersecurity risks are a constant threat, both for the Company and for the third-parties it works with. Therefore, it cannot guarantee that these measures will be successful. Any failure, interruption in, or breach in security of, its computer systems and network infrastructure, as well as those of its customers engaging in internet banking activities or electronic funds transfers, could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations.

Similarly, the Company is reliant upon its employees. Such dependencies create risks for potential losses resulting from employee errors, breakdowns in process or control, failures to properly execute change management, negligence, or a number of other factors outside the Company s control. It The Company maintains a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors, customer or employee fraud and other disruptions which might impact its business. In addition, Internal

Audit routinely reviews operations and high risk areas for error, deficient controls, and failure to adhere to policy.

Potential legal actions, fines and civil money penalties could arise as results of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity.

A breach in the security of the Company s systems could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and create significant financial and legal exposure for the Company.

Although the Company devotes significant resources to maintain and regularly upgrade systems and processes designed to protect the security of its computer systems, software, networks and other technology assets, these measures do

not provide absolute security. In fact, several financial services institutions, retailers and other companies have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means. Some companies in the United States have experienced well-publicized attacks from technically sophisticated and well-resourced third-parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These denial-of-service attacks may not have breached data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior. Furthermore, even if not directed at the Company, attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of the Company s businesses.

Threats to security also exist in the processing of customer information through various other third-parties, their personnel, and their use of subcontractors. Furthermore, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms the Company and its third-party service providers use to encrypt and protect customer transaction data. Such cyber incidents may go undetected for a period of time.

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company s customers through various third-parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Because card transactions involve third-parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third-parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. Further cyber-attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company s business.

Penetration or circumvention of the Company s security systems could result in serious negative consequences for the Company, including significant disruption of the Company s operations, misappropriation of confidential information of the Company or that of its customers, or damage to computers or system of the Company and those of its customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to the Company or its customers, loss of confidence in the Company s security measures, customer dissatisfaction, significant litigation exposure and harm to the Company s reputation, all of which would adversely affect the Company.

These risks have increased for all financial institutions as new technologies, the use of the Internet and telecommunications technologies, including mobile devices, to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. Despite the Company s efforts to prevent or limit the effects of potential threats, it is possible that the Company may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security-related attacks can originate from a wide variety of sources, including organized crime, hackers, terrorists, activists, and other external parties, including parties sponsored by hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Company s systems to disclose sensitive information in order to gain access to the Company s data or that of its customers. These risks may increase in the future as the Company increases its mobile payments, internet-based product offerings, and expand its internal usage of web-based products and applications.

Customer or employee fraud may affect operations, result in significant financial loss, and have an adverse impact on the Company s reputation.

Misconduct could subject the Company to financial losses or regulatory sanctions and seriously harm its reputation. Misconduct by employees and customers could include hiding unauthorized activities, improper or unauthorized activities or improper use of confidential information. It is not possible to prevent all errors and misconduct, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases.

Customer or other outsiders may also attempt to perpetuate fraud or scams in the form of identity theft, money laundering, fraudulent or altered deposits, or use of counterfeit instruments, as a few examples. The Company also faces fraud risk associated with the origination of loans, including the intentional misstatement of information in property appraisals or other underwriting documentation provided to it by customers or by third-parties. Customers may expose the Company to certain fraud risks associated with the compromise of their computing systems or accounts, as well.

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Should the Company s internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, such failures could adversely affect its business, results of operations and financial condition. Both the number and sophistication level of attempted fraudulent transactions are increasing. Should our internal controls fail to prevent or detect an occurrence of fraud, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company s ability to attract and retain management and key personnel may affect future growth and earnings and legislation imposing new compensation restrictions could adversely affect its ability to do so.

Much of the Company s success and growth has been influenced strongly by its ability to attract and retain management experienced in banking and financial services and familiar with the communities in its market areas. The Company s ability to retain executive officers, current management teams, lending and retail banking officers, and administrative staff of its subsidiaries continues to be important to the successful implementation of its strategy. Also critical is the Company s ability to attract and retain qualified staff with the appropriate level of experience and knowledge about its market areas so as to implement its community-based operating strategy. The unexpected loss of services of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company s business, financial condition, and results of operation.

Damage resulting from negative publicity could harm the Company s reputation and adversely impact its business and financial condition.

The Company s ability to attract and maintain customers, investors, and employees is contingent upon maintaining trust. Negative public opinion could result from the Company s actual or alleged conduct in a number of activities, including, but not limited to, employee misconduct, a failure or perceived failure to deliver appropriate standards of service and quality or to treat customers fairly, faulty lending practices, compliance failures, security breaches, corporate governance, sharing or inadequate protection of customer information, failure to comply with laws or regulations, and actions taken by government regulators and community organizations in response to that conduct. The results of such actual or alleged misconduct could include customer dissatisfaction, inability to attract potential acquisition prospects, litigation, and heightened regulatory scrutiny, all of which could lead to lost revenue, higher operating costs and harm to the Company s reputation. No assurance can be made, despite the cost or efforts made by the Company to address the issues arising from reputational harm, that results could not adversely affect the Company s business, financial condition, and results of operations.

Severe weather, natural disasters, acts of terrorism or war or other adverse external events could significantly impact the Company s business.

Severe weather, natural disasters, acts of terrorism or war and other adverse external events could have a significant impact on the Company s ability to conduct business. In addition, such events could affect the stability of the Company s deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on the Company s business, which in turn, could have a material adverse effect on the financial condition and results of operation.

The Company s framework for managing risks may not be effective in mitigating risk and loss.

The Company s risk management framework seeks to mitigate risk and loss. It has established processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which it is subject, compliance risk and reputational risk, among others. However, as with any risk management framework, there are inherent limitations. Risks may exist, or emerge in the future, that have not been appropriately identified or anticipated. The Company s ability to successfully identify and manage the risks it faces is an important factor that can significantly impact results. If its risk management framework proves ineffective, the Company could suffer unexpected losses and could be materially adversely affected.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

First Busey s headquarters are located at 100 West University Avenue, Champaign, Illinois. The Busey Bank and Busey Wealth Management headquarters are also located at 100 West University Avenue, Champaign, Illinois. FirsTech s headquarters are located at 130 North Water Street, Decatur, Illinois. These facilities, which are owned by the Company, house the executive and primary administrative offices of each respective entity. The Company also owns or leases other facilities, such as branches of Busey Bank, within its primary market areas of downstate Illinois, Indianapolis, Indiana and southwest Florida.

First Busey and its subsidiaries own or lease all of the real property and/or buildings on which each respective entity is located. The Company considers its properties to be suitable and adequate for its present needs.

Item 3. Legal Proceedings

Two putative class action lawsuits have been filed in the Circuit Court of the County of St. Louis, Missouri. The lawsuits name as defendants the members of Pulaski s board of directors, Pulaski and First Busey. Demand for jury trial has been made. The lawsuits allege breaches of fiduciary duty due to the process leading to the proposed merger of Pulaski and First Busey, potential conflicts of interest, inadequate merger consideration, the terms of the merger agreement, and the failure to disclose allegedly material information related to the proposed merger. The lawsuits also allege that First Busey aided and abetted the breach of fiduciary duty. The relief sought includes class certification, declaratory relief, an injunction against the merger, rescission or rescissory damages if the merger is consummated, costs and attorney s fees. On March 4, 2016, the plaintiff in one of the actions filed a notice voluntarily dismissing First Busey from the lawsuit. First Busey remains a defendant in the second action. Pulaski and First Busey each believes that the factual allegations in the complaints are without merit and intends to defend vigorously against these allegations.

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Prices and Dividends

The following table presents for the periods indicated the high and low sales price for First Busey common stock as reported on The Nasdaq Global Select Market. Prices have been adjusted to reflect the Company s September 8, 2015 one-for-three reverse stock split.

	2015		2014	
Market Prices of Common Stock	**High**	**Low**	**High**	**Low**
First Quarter	$ 20.58	$ 17.91	$ 18.69	$ 14.13
Second Quarter	$ 20.52	$ 18.18	$ 17.91	$ 16.11
Third Quarter	$ 20.83	$ 17.77	$ 18.00	$ 16.23
Fourth Quarter	$ 22.59	$ 18.65	$ 20.22	$ 16.38

During 2015 and 2014, First Busey declared cash dividends per share of common stock as follows:

	2015	2014
January	$ 0.15	$ 0.12
April	$ 0.15	$ 0.15
July	$ 0.15	$ 0.15
October	$ 0.17	$ 0.15

The Company s board of directors and management are currently committed to continue paying regular cash dividends; however, no guarantee can be given with respect to future dividends, as they are dependent on certain regulatory restrictions, future earnings, capital requirements and financial condition of the Company and its subsidiaries.

As of March 8, 2016, First Busey Corporation had 28,694,852 shares of common stock outstanding held by 812 holders of record. Additionally, there are an estimated 4,980 beneficial holders whose stock was held in street name by brokerage houses and nominees as of that date.

Stock Repurchases

On February 3, 2015, First Busey s board of directors authorized the Company to repurchase up to an aggregate of 666,667 shares of its common stock. The repurchase plan has no expiration date and replaced the prior repurchase plan that was originally approved in 2008. There were no

purchases made by or on behalf of First Busey of shares of its common stock during the quarter ended December 31, 2015. At December 31, 2015, the Company had 333,334 shares that may yet be purchased under the plan.

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Performance Graph

The following graph compares First Busey s performance, as measured by the change in price of its common stock plus reinvested dividends, with the NASDAQ Composite and the SNL Midwest Bank Index for the five years ended December 31, 2015.

First Busey Corporation
Stock Price Performance

Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
First Busey Corporation	$ 100.00	$ 109.84	$ 107.30	$ 137.25	$ 159.21	$ 173.64
NASDAQ Composite	100.00	99.21	116.81	163.72	188.00	201.36
SNL Midwest Bank Index	100.00	94.46	113.69	155.65	169.21	171.78

The banks in the SNL Midwest Bank Index represent all publicly traded banks, thrifts or financial service companies located in Iowa, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota and Wisconsin.

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Item 6. Selected Financial Data

Selected Consolidated Financial Information

The following selected financial data, adjusted to reflect the Reverse Stock Split, as of year-end and for each of the five years in the period ended December 31, 2015, have been derived from First Busey s audited Consolidated Financial Statements and the results of operations for each period. This financial data should be read in conjunction with the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in this Annual Report.

	2015	2014	2013	2012	2011
			(dollars in thousands, except per share data)		
Balance Sheet Items					
Securities available for sale	$ 834,838	$ 759,065	$ 841,310	$ 1,001,497	$ 831,749
Securities held to maturity	49,832	2,373	834		
Gross loans, including loans held for sale	2,637,090	2,415,690	2,295,300	2,073,110	2,051,344
Allowance for loan losses	47,487	47,453	47,567	48,012	58,506
Total assets	3,998,976	3,665,607	3,539,575	3,618,056	3,402,122
Tangible assets(1)	3,966,034	3,638,234	3,509,318	3,584,667	3,365,418
Total deposits	3,289,106	2,900,848	2,869,138	2,980,292	2,763,454
Short-term debt(2)	172,972	198,893	172,348	139,024	127,867
Long-term debt	80,000	50,000		7,000	19,417
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000	55,000	55,000	55,000
Stockholders equity	373,186	433,639	415,364	408,797	409,267
Common stockholders equity	373,186	360,975	342,700	336,133	336,603
Tangible common stockholders equity(3)	343,211	336,271	316,351	307,976	306,495
Results of Operations					
Interest and dividend income	$ 118,022	$ 108,075	$ 108,696	$ 116,916	$ 132,819
Interest expense	6,207	6,499	8,631	14,770	22,426
Net interest income	111,815	101,576	100,065	102,146	110,393
Provision for loan losses	1,600	2,000	7,500	16,500	20,000
Net income available for common stockholders	38,306	32,047	25,093	18,724	24,531
Per Share Data					
Diluted earnings	$ 1.32	$ 1.10	$ 0.86	$ 0.65	$ 0.86
Cash dividends	0.62	0.57	0.36	0.72	0.48
Book value(4)	13.01	12.47	11.84	11.63	11.66
Tangible book value(5)	11.86	11.52	10.80	10.48	10.39
Closing stock price	20.63	19.53	17.40	13.95	15.00
Other Information					
Return on average assets	0.98%	0.91%	0.71%	0.53%	0.71%
Return on average common equity	10.41%	9.11%	7.39%	5.49%	7.66%
Net interest margin(6)	3.10%	3.15%	3.15%	3.24%	3.52%
Equity to assets ratio(7)	9.39%	9.94%	9.61%	9.74%	9.22%
Dividend payout ratio(8)	46.97%	51.82%	41.86%	110.77%	55.81%

(1)Total assets less goodwill and intangible assets.

(2)Includes federal funds purchased, securities sold under agreements to repurchase, and short-term borrowings.

(3)Common equity less tax effected goodwill and intangible assets.

(4)Total common equity divided by shares outstanding as of period end.

(5)Total common equity less goodwill and intangible assets divided by shares outstanding as of period end.

(6)Tax-equivalent net interest income divided by average earning assets.

(7)Average common equity divided by average total assets.

(8)Ratio calculated using only common stock.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the financial condition as of December 31, 2015 and 2014 and results of operations for the years ended December 31, 2015, 2014, and 2013 of First Busey and subsidiaries. It should be read in conjunction with Item 1. Business, Item 6. Selected Financial Data, the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in this Annual Report.

Critical Accounting Estimates

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

First Busey s significant accounting policies are described in *Note 1 Significant Accounting Policies* in the Notes to the Consolidated Financial Statements. The majority of these accounting policies do not require management to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

Fair Value of Investment Securities. Securities are classified as held to maturity when First Busey has the ability and management has the positive intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. First Busey had $49.8 million of securities classified as held to maturity at December 31, 2015. First Busey had no securities classified as trading at December 31, 2015. Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. As of December 31, 2015, First Busey had $834.8 million of securities classified as available for sale. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security s terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.

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

impairment related to the credit loss and the amount of total impairment related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings, and the amount related to all other factors is recognized in other comprehensive income.

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

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

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

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

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

Deferred Taxes. We have maintained significant net deferred tax assets for deductible temporary differences, the largest of which relates to the allowance for loan losses. For income tax return purposes, only actual charge-offs are deductible, not the provision for loan losses. Under generally accepted accounting principles (GAAP), a valuation allowance is required to be recognized if it is more likely than not that the deferred tax asset will not be realized. The determination of the recoverability of the deferred tax assets is highly subjective and dependent upon judgment concerning management s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions. We consider both positive and negative evidence regarding the ultimate recoverability of our deferred tax assets. Positive evidence includes available tax planning strategies and the probability that taxable income will continue to be generated in future periods, as it was in periods since March 31, 2010, while negative evidence includes a cumulative loss in 2009 and 2008 and certain business and economic trends. We evaluated the recoverability of our net deferred tax assets and established a valuation allowance for certain state net operating loss and credit carryforwards that are not expected to be fully realized. Management believes that it is more likely than not that the other deferred tax assets included in the accompanying Consolidated Financial Statements will be fully realized. We determined that no valuation allowance was required for any other deferred tax assets as of December 31, 2015, although there is no guarantee that those assets will be recognizable in future periods.

We assess the likelihood that any deferred tax assets will be realized through the reduction of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more likely than not. In making this assessment, we must make judgments and estimates regarding the ability to realize the asset through the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies.

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Executive Summary

Operating Results

(in thousands, except per share data)

	Year Ended December 31:			
	2015		2014	
Net income by subsidiary:				
Consolidated	$	39,006	$	32,774
Busey Bank		36,169		30,764
FirsTech		1,709		1,227
Busey Wealth Management		4,578		4,681
Consolidated earnings per share, fully-diluted	$	1.32	$	1.10

Operating Performance

First Busey Corporation s net income for the year ended December 31, 2015 was $39.0 million and net income available to common stockholders was $38.3 million, or $1.32 per fully-diluted common share, compared to net income of $32.8 million and net income available to common stockholders of $32.0 million, or $1.10 per fully-diluted common share, for the year ended December 31, 2014. On January 8, 2015, the Company completed its acquisition of Herget Financial, which impacted year-to-date net income by $1.0 million in one-time expenses, occurring primarily in the first quarter of 2015. Further, the Company undertook initiatives to refine its branch network and restructure various internal teams during the first quarter of 2015, resulting in $0.7 million of fixed asset impairments and $0.3 million in other corporate restructuring costs.

Following an extensive analysis of both customer needs and stockholder value, we consolidated three full service branches on July 30, 2015 and consolidated one additional branch on December 1, 2015. As we successfully service many emerging customer preferences through enhanced digital and telephone support, we have also modified hours where appropriate in our remaining thirty-five branch network to better match patterns of customer usage and added online scheduling capabilities. Our streamlined retail network will continue as a dynamic funding source with a relationship-driven focus to help our customers and communities flourish.

On December 3, 2015, the Company entered into a Merger Agreement with Pulaski, pursuant to which Pulaski will merge into First Busey, with First Busey as the surviving corporation. It is anticipated that Pulaski Bank, Pulaski s wholly-owned bank subsidiary, will be merged with and into Busey Bank, at a date following the completion of the holding company merger. At the time of the bank merger, Pulaski Bank s branches will become branches of Busey Bank. The Federal Reserve Bank of Chicago has approved the Merger and it is anticipated to be completed in the first half of 2016, subject to the satisfaction of customary closing conditions in the Merger Agreement and the approval of the stockholders of both Pulaski and First Busey. The merger with Pulaski will allow the Company to significantly expand its geographic presence through a premier St. Louis banking franchise with an almost 100-year history and a strong regional mortgage presence. As of December 31, 2015, Pulaski had total consolidated assets of $1.65 billion, total loans of $1.41 billion and total deposits of $1.21 billion.

Significant operating performance items were:

- Net interest income for the year ended December 31, 2015 was $111.8 million compared to $101.6 million for year ended December 31, 2014. 2015 net interest income included a net interest recovery on non-accrual loans of $0.9 million. The Federal Open Market Committee announced that effective December 17, 2015 the federal funds rate increased from 0.25% to 0.50%. The Company expects this increase in interest rates to be modestly favorable to net interest income in the next year.

- The net interest margin for the year ended December 31, 2015 decreased to 3.10% compared to 3.15% for the year ended December 31, 2014.

- The efficiency ratio for the year ended December 31, 2015 improved to 62.84% from 65.11% for the same period of 2014. During 2015, various actions were undertaken to shape the future, trimming certain areas where sensible and adding in others with a continuing commitment to deliver optimal value to our stockholders. Following the anticipated Merger with Pulaski, one time charges relating to the integration of Pulaski may have a negative impact on the efficiency ratio in 2016.

- FirsTech s net income for the year ended December 31, 2015 of $1.7 million increased from $1.2 million for the year ended December 31, 2014, primarily due to growth in electronic processing revenues, including online and mobile services. FirsTech offers sophisticated payment processing capabilities and adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients.

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- Busey Wealth Management s net income for the year ended December 31, 2015 was $4.6 million compared to $4.7 million for the year ended December 31, 2014. The Company believes the boutique services offered to ultra-high net worth clients by Trevett Capital Partners within its suite of wealth services broadens the Company s business base and enhances its ability to develop revenue sources in future years. In addition, our professional farm management and brokerage services are entrusted to care and maximize value for landowners of prime farmland in Illinois.

- Revenues from trust fees, commissions and brokers fees, and remittance processing activities represented 53.4% of the Company s non-interest income for the year ended December 31, 2015, providing a balance to revenue from traditional banking activities. Trust fees and commission and brokers fees increased to $23.5 million for the year ended December 31, 2015 compared to $22.3 million for the year ended December 31, 2014. Remittance processing revenue increased to $11.1 million for the year ended December 31, 2015 compared to $9.4 million, up 18.0%, for the year ended December 31, 2014.

Asset Quality

While much internal focus has been directed toward growth, the Company s remains committed to credit quality. The December 31, 2015 asset metrics reflect the post combination results of acquiring Herget. As of December 31, 2015, the Company reported non-performing loans of $12.8 million compared to $9.0 million as of December 31, 2014. Non-performing assets as a percentage of total loans and non-performing assets continued to be low at 0.51% at December 31, 2015. With a continued commitment to the quality of assets and the strength of our balance sheet, near-term loan losses are expected to remain generally low. Asset quality metrics can be generally influenced by market-specific economic conditions beyond the control of the Company, and specific measures may fluctuate from quarter to quarter. The key metrics are as follows:

	As of and for the Year Ended December 31, 2015	December 31, 2014
	(in thousands)	
Gross loans	$ 2,637,090	$ 2,415,690
Non-performing loans		
Non-accrual loans	12,748	9,000
Loans 90+ days past due	15	10
Non-performing loans, segregated by geography		
Illinois/ Indiana	11,732	5,309
Florida	1,031	3,701
Loans 30-89 days past due	3,282	1,819
Other non-performing assets	783	216
Non-performing assets to total loans and non-performing assets	0.51%	0.38%
Allowance as a percentage of non-performing loans	372.07%	526.67%
Allowance for loan losses to loans	1.80%	1.96%

Results of Operation Three Years Ended December 31, 2015

Net Interest Income

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

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

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

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Average Balance Sheets and Interest Rates

	Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
	(dollars in thousands)								
Assets									
Interest-bearing bank deposits	$ 237,819	$ 622	0.26%	$ 160,948	$ 411	0.26%	$ 194,508	$ 483	0.25%
Investment securities:									
U.S. Government obligations	220,848	2,580	1.17%	274,062	3,491	1.27%	420,049	5,644	1.34%
Obligations of states and political Subdivisions(1)	238,129	6,574	2.76%	245,218	6,495	2.65%	287,928	7,699	2.67%
Other securities	447,333	9,625	2.15%	308,925	7,036	2.28%	225,236	4,733	2.10%
Loans(1), (2), (3)	2,532,459	100,803	3.98%	2,301,358	92,659	4.03%	2,126,536	92,498	4.35%
Total interest-earning assets(1)	$ 3,676,588	$ 120,204	3.27%	$ 3,290,511	$ 110,092	3.35%	$ 3,254,257	$ 111,057	3.41%
Cash and due from banks	86,942			87,884			92,390		
Premises and equipment	64,891			65,049			68,974		
Allowance for loan losses	(47,756)			(48,091)			(48,239)		
Other assets	140,838			143,211			163,866		
Total assets	$ 3,921,503			$ 3,538,564			$ 3,531,248		
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 83,953	$ 113	0.13%	$ 48,431	$ 27	0.06%	$ 49,049	$ 30	0.06%
Savings deposits	238,224	42	0.02%	212,718	41	0.02%	207,185	57	0.03%
Money market deposits	1,628,234	2,014	0.12%	1,480,738	1,722	0.12%	1,474,222	1,779	0.12%
Time deposits	500,296	2,587	0.52%	537,415	3,333	0.62%	633,534	5,233	0.83%
Short-term borrowings:									
Federal funds purchased			%	281	1	0.36%			%
Repurchase agreements	179,662	182	0.10%	148,452	185	0.12%	137,777	186	0.14%
Other	14	6	42.86%	68		%		15	%
Long-term debt	52,145	46	0.09%	9,271	7	0.08%	2,290	125	5.46%
Junior subordinated debt issued to unconsolidated trusts	55,000	1,217	2.21%	55,000	1,183	2.15%	55,000	1,206	2.19%
Total interest-bearing liabilities	$ 2,737,528	$ 6,207	0.23%	$ 2,492,374	$ 6,499	0.26%	$ 2,559,057	$ 8,631	0.34%
Net interest spread(1)			3.04%			3.09%			3.07%
Noninterest-bearing deposits	717,854			596,058			531,744		
Other liabilities	28,168			25,655			28,356		
Stockholders equity	437,953			424,477			412,091		
Total liabilities and stockholders equity	$ 3,921,503			$ 3,538,564			$ 3,531,248		
Interest income/earning assets(1)	$ 3,676,588	$ 120,204	3.27%	$ 3,290,511	$ 110,092	3.35%	$ 3,254,257	$ 111,057	3.41%
Interest expense/earning assets	$ 3,676,588	$ 6,207	0.17%	$ 3,290,511	$ 6,499	0.20%	$ 3,254,257	$ 8,631	0.26%
Net interest margin(1)		$ 113,997	3.10%		$ 103,593	3.15%		$ 102,426	3.15%

(1)On a tax-equivalent basis, assuming a federal income tax rate of 35%.

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

(3)Includes loan fee income of $2.2 million, $3.0 million and $2.8 million for 2015, 2014 and 2013, respectively.

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Average Balance Sheets and Interest Rates (continued)

Changes in Net Interest Income:

	Years Ended December 31, 2015, 2014, and 2013					
	Year 2015 vs. 2014 Change due to(1)			Year 2014 vs. 2013 Change due to(1)		
	Average Volume	Average Yield/Rate	Total Change	Average Volume	Average Yield/Rate	Total Change
	(dollars in thousands)					
Increase (decrease) in interest income:						
Interest-bearing bank deposits	$ 201	$ 10	$ 211	$ (85)	$ 13	$ (72)
Investment securities:						
U.S. Government obligations	(638)	(273)	(911)	(1,873)	(280)	(2,153)
Obligations of state and political subdivisions(2)	(191)	270	79	(1,132)	(72)	(1,204)
Other securities	2,997	(408)	2,589	1,879	424	2,303
Loans(2)	9,209	(1,065)	8,144	7,307	(7,146)	161
Change in interest income(2)	$ 11,578	$ (1,466)	$ 10,112	$ 6,096	$ (7,061)	$ (965)
Increase (decrease) in interest expense:						
Interest-bearing transaction deposits	$ 29	$ 57	$ 86	$	$ (3)	$ (3)
Savings deposits	5	(4)	1	1	(17)	(16)
Money market deposits	178	114	292	8	(65)	(57)
Time deposits	(219)	(527)	(746)	(719)	(1,181)	(1,900)
Federal funds purchased	(1)		(1)	1		1
Repurchase agreements	35	(38)	(3)	14	(15)	(1)
Other short-term borrowings		6	6	(7)	(8)	(15)
Long-term debt	38	1	39	97	(215)	(118)
Junior subordinated debt owed to unconsolidated trusts		34	34		(23)	(23)
Change in interest expense	$ 65	$ (357)	$ (292)	$ (605)	$ (1,527)	$ (2,132)
Increase (decrease) in net interest income(2)	$ 11,513	$ (1,109)	$ 10,404	$ 6,701	$ (5,534)	$ 1,167
Percentage increase in net interest income over prior period			10.0%			1.1%

(1)Changes due to both rate and volume have been allocated proportionally.

(2)On a tax-equivalent basis, assuming a federal income tax rate of 35%.

Earning Assets, Sources of Funds, and Net Interest Margin

Total average interest-earning assets increased $386.1 million, or 11.7%, to $3.68 billion in 2015, as compared to $3.29 billion in 2014. Total average interest-earning assets increased $36.3 million, or 1.1%, to $3.29 billion in 2014, as compared to $3.25 billion in 2013. Average loans increased in 2015 and 2014 primarily due to our continued emphasis on organic commercial loan growth supplemented in 2015 by the Herget

Financial acquisition; however, loans were added at lower yields than in 2013 due to the competitive lending environment. Loans generally have notably higher yields compared to interest-bearing bank deposits and investment securities. Our loan growth contributed to a positive effect on net interest margin which helped offset the downward pressure of a lower rate environment.

Total average interest-bearing liability balances increased $245.2 million, or 9.8%, to $2.74 billion in 2015, as compared to $2.49 billion in 2014. Total average interest-bearing liability balances decreased $66.7 million, or 2.6%, to $2.49 billion in 2014, as compared to $2.56 billion in 2013. Average noninterest-bearing deposits increased $121.8 million, or 20.4%, to $717.9 million in 2015, as compared to $596.1 million in 2014. Average noninterest-bearing deposits increased $64.4 million, or 12.1%, to $596.1 million in 2014, as compared to $531.7 million in 2013. Average non-interest bearing deposits represented 22.7% of total average deposits in 2015. The Company remains strongly core deposit funded with total average deposits in 2015 representing 91.0% of total average liabilities, with solid liquidity and significant market share in the communities we serve.

Interest income, on a tax-equivalent basis, increased $10.1 million, or 9.2%, to $120.2 million in 2015, from $110.1 million in 2014. The interest income increase related primarily to the increase in loan volumes, as discussed above. Interest income, on a tax-equivalent basis, decreased $1.0 million, or 0.9%, to $110.1 million in 2014, from $111.1 million in 2013. The interest income decline in 2014 related primarily to lower yields earned on assets in a low interest rate environment.

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Interest expense decreased during 2015 by $0.3 million, or 4.5%, to $6.2 million from $6.5 million in 2014. Interest expense decreased during 2014 by $2.1 million, or 24.7%, to $6.5 million from $8.6 million in 2013. The decreases in interest expense during the past two years were a result of favorable changes in funding mix and decreases in interest rates offered by the Company on certain deposit products as the interest rate environment remained low.

Net interest income, on a tax-equivalent basis, increased $10.4 million, or 10.0%, in 2015 as compared to 2014. Net interest income, on a tax-equivalent basis, increased $1.2 million, or 1.14%, in 2014 as compared to 2013. The Federal Open Market Committee announced that effective December 17, 2015, the federal funds rate increased from 0.25% to 0.50%. The Company expects this increase in interest rates to be modestly favorable to net interest income in the next year.

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 3.10% in 2015 compared to 3.15% in 2014 and 2013. The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, also on a tax-equivalent basis, was 3.04% in 2015 compared to 3.09% in 2014 and 3.07% in 2013.

The net interest margin discussion above is based upon annual results and average balances, which do not fully explain the trends of the net interest margin during the year. The quarterly net interest margins are as follows:

	2015	**2014**	**2013**
First Quarter	3.03%	3.13%	3.10%
Second Quarter	3.05%	3.13%	3.17%
Third Quarter	3.10%	3.19%	3.20%
Fourth Quarter	3.23%	3.13%	3.12%

We continued to experience downward pressure on our yield in interest-earning assets resulting from a protracted period of historically low rates and heightened competition for assets throughout the banking industry. The development of a stronger asset mix from increased loan balances, while actively bringing down interest expense and optimizing funding costs, remains a focus. We believe improvements in margin will be achieved through continued deployment of our liquid funds at higher yields as we redeploy cash into investment securities and loans.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies.

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Other Income

	As of December 31,							
(dollars in thousands)	2015	2014	$ Change	% Change	2014	2013	$ Change	% Change
Trust fees	$ 20,363	$ 19,559	$ 804	4.1%	$ 19,559	$ 18,521	$ 1,038	5.6%
Commissions and brokers fees, net	3,096	2,716	380	14.0%	2,716	2,416	300	12.4%
Remittance processing	11,120	9,421	1,699	18.0%	9,421	8,354	1,067	12.8%
Service charges on deposit accounts	12,600	12,038	562	4.7%	12,038	11,947	91	0.8%
Other service charges and fees	6,483	6,238	245	3.9%	6,238	5,961	277	4.6%
Gain on sales of loans	5,843	4,723	1,120	23.7%	4,723	10,227	(5,504)	(53.8)%
Security gains, net	380	776	(396)	(51.0)%	776	553	223	40.3%
Other	4,907	3,470	1,437	41.4%	3,470	4,604	(1,134)	(24.6)%
Total other income	$ 64,792	$ 58,941	$ 5,851	9.9%	$ 58,941	$ 62,583	$ (3,642)	(5.8)%

Total other income of $64.8 million increased $5.9 million from $58.9 million in 2014. Total other income of $58.9 million in 2014 decreased $3.7 million from $62.6 million in 2013.

Combined wealth management revenue, consisting of trust fees and commissions and broker s fees, net, of $23.5 million in 2015 rose $1.2 million from $22.3 million in 2014 and 2014 income rose $1.4 million from $20.9 million in 2013. Growth in new assets under care (AUC), driven by our wealth management teams in 2015 and 2014, impacts fee income as wealth management revenues are typically correlated to levels of AUC. Furthermore, the Company believes the boutique services offered by Trevett Capital Partners within its suite of wealth services broadens its business base and enhances its ability to further develop revenue sources. In addition, our professional farm management and brokerage services are entrusted to care and maximize value for landowners of prime farmland in Illinois.

Remittance processing revenue relates to our payment processing company, FirsTech. FirsTech s revenue of $11.1 million in 2015 increased 18.0% compared to $9.4 million in 2014 and revenue of $9.4 million in 2014 increased 12.8% compared to $8.4 million in 2013. The increases were primarily due to growth in electronic processing revenues, including online and mobile services. FirsTech adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and nationally.

Overall, service charges on deposit accounts combined with other service charges and fees increased to $19.1 million in 2015 as compared to $18.3 million in 2014 and increased in 2014 as compared to $17.9 million in 2013. Evolving regulation, product changes and changing behaviors by our client base may impact the revenue derived from charges on deposit accounts.

Gain on sales of loans of $5.8 million in 2015 increased $1.1 million compared to $4.7 million in 2014. Gain on sales of loans of $4.7 million in 2014 decreased $5.5 million compared to $10.2 million in 2013. Fluctuations in gain on sales of loans is predominantly based on residential mortgage activity.

Security gains, net, of $0.4 million in 2015 decreased compared to $0.8 million in 2014 but increased in 2014 compared to $0.6 million in 2013. Security gains, net, vary based on the Company s decisions around selling securities.

Other income of $4.9 million in 2015 increased as compared to $3.5 million in 2014 and decreased in 2014 as compared to $4.6 million in 2013. The decrease in 2014 related to private equity investment losses and fluctuations across multiple revenue sources.

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Other Expense

	As of December 31,							
(dollars in thousands)	2015	2014	$ Change	% Change	2014	2013	$ Change	% Change
Compensation expense:								
Salaries and wages	$ 54,020	$ 51,734	$ 2,286	4.4%	$ 51,734	$ 52,891	$ (1,157)	(2.2)%
Employee benefits	9,496	9,607	(111)	(1.2)%	9,607	10,922	(1,315)	(12.0)%
Total compensation expense	$ 63,516	$ 61,341	$ 2,175	3.5%	$ 61,341	$ 63,813	$ (2,472)	(3.9)%
Net occupancy expense of premises	$ 8,704	$ 8,462	$ 242	2.9%	$ 8,462	$ 8,489	$ (27)	(0.3)%
Furniture and equipment expenses	4,958	4,725	233	4.9%	4,725	4,848	(123)	(2.5)%
Data processing	12,940	10,879	2,061	18.9%	10,879	10,465	414	4.0%
Amortization of intangible assets	3,192	2,884	308	10.7%	2,884	3,132	(248)	(7.9)%
Regulatory expense	2,357	2,079	278	13.4%	2,079	2,290	(211)	(9.2)%
Other	19,638	17,839	1,799	10.1%	17,839	19,274	(1,435)	(7.4)%
Total other expense	$ 115,305	$ 108,209	$ 7,096	6.6%	$ 108,209	$ 112,311	$ (4,102)	(3.7)%
Income taxes	$ 20,696	$ 17,534	$ 3,162	18.0%	$ 17,534	$ 14,111	$ 3,423	24.3%
Effective rate on income taxes	34.7%	34.9%			34.9%	32.9%		
Efficiency ratio	62.8%	65.1%			65.1%	66.4%		
Full-time equivalent employees as of period-end	795	801			801	849		

Total other expense of $115.3 million in 2015 increased by $7.1 million as compared to $108.2 million in 2014 but decreased by $4.1 million in 2014 as compared to $112.3 million in 2013. In 2015, total other expense was influenced by the Herget Financial acquisition and other non-recurring expenses during the first quarter of 2015. In 2014, the Company focused on cost control initiatives, which broadly reduced operating expenses. We continue to examine all areas of the Company, seeking sensible opportunities to reduce cost and enhance efficiency. Following the anticipated Merger with Pulaski, one time charges relating to the integration of Pulaski may have a negative impact on expenses in 2016.

Total compensation expense increased to $63.5 million in 2015 as compared to $61.3 million in 2014 but decreased in 2014 as compared to $63.8 million in 2013. The 2015 increase over 2014 was due to higher commissions related to mortgage production, first quarter restructuring expenses, and an initial increase in the number of employees in connection with the Herget Financial acquisition. Cost containment efforts and personnel reductions starting in 2013 contributed to positive expense trends from 2013 to 2014.

Combined net occupancy expense of premises and furniture and equipment expenses of $13.7 million in 2015 increased as compared to $13.2 million in 2014 but decreased in 2014 as compared to $13.3 million in 2013. We continue to evaluate our operations for appropriate cost control measures while seeking improvements in service delivery to our customers.

Data processing expense increased 18.9% in 2015 to $12.9 million as compared to $10.9 million in 2014 and increased 4.0% in 2014 as compared to $10.5 million in 2013. The increase was primarily due to non-recurring software conversion expenses related to the acquisition of Herget Financial. A portion of the increase was also related to supporting new sources of revenue growth at FirsTech. As the Company manages data processing expense, it continues to enhance its mobile and internet banking services and prioritize strategies to mitigate the risk from cybercriminals through the use of new technology, industry best practices and customer education.

Amortization of intangible assets increased in 2015 to $3.2 million as compared to $2.9 million in 2014 as a result of the January 8, 2015 Herget Financial acquisition. Amortization of intangible assets decreased in 2014 as compared to $3.1 million in 2013.

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Regulatory expense increased 13.4% in 2015 to $2.4 million as compared to $2.1 million in 2014. Regulatory expense decreased 9.2% in 2014 as compared to $2.3 million in 2013. On January 21, 2016, the FDIC issued a Notice of Proposed Rulemaking (NPR) on proposed refinements to the deposit insurance assessment system for small insured depository institutions (generally, those institutions with less than $10 billion in total assets). The NPR revised an NPR adopted by the board on June 16, 2015 in response to comments received. The refinements would become operative the quarter after the reserve ratio of the Deposit Insurance Fund reaches 1.15%. The Company projects that the proposal would be favorable to our annual cost of FDIC insurance.

Other expense of $19.6 million in 2015 increased $1.8 million as compared to $17.8 million in 2014 and decreased $1.5 million in 2014 as compared to $19.3 million in 2013. The 2015 increase was the result of restructuring initiatives, which included $0.7 million in fixed asset impairments, $0.6 million of acquisition related expenses and $0.2 million in costs exploring other strategic growth opportunities. The 2014 decrease was the result of actions taken starting in early 2013 for widespread reductions in expenses due to an enhanced emphasis on cost control.

The effective rate on income taxes, or income taxes divided by income before taxes, of 34.7%, 34.9% and 32.9% for the years ended December 31, 2015, 2014 and 2013, respectively, was lower than the combined federal and state statutory rate of approximately 40% due to fairly stable amounts of tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a portion of our taxable income. As taxable income increases, we expect our effective tax rate to increase. Under current law, Illinois net operating loss carryover limitations expired in 2014 and the corporate income tax rate decreased as of January 1, 2015. The Company continues to monitor evolving state tax legislation and its potential impact on operations on an ongoing basis.

The efficiency ratio represents total other expense, less amortization charges, as a percentage of tax-equivalent net interest income plus other income, less security gains and losses. The efficiency ratio, which is a non-GAAP financial measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio improved in 2015 to 62.8% as compared to 65.1% in 2014 and 66.4% in 2013. We will continue to examine appropriate avenues to improve efficiency, as a focus in future periods, with an emphasis on revenue growth.

Balance Sheet

Significant Balance Sheet Items (dollars in thousands)	**December 31, 2015**	**December 31, 2014**	**$ Change**	**% Change**
Assets				
Securities, including available for sale and held to maturity	$ 884,670	$ 761,438	$ 123,232	16.2%
Loans, net, including loans held for sale	2,589,603	2,368,237	221,366	9.3%
Total assets	$ 3,998,976	$ 3,665,607	$ 333,369	9.1%
Liabilities				
Deposits:				
Noninterest-bearing	$ 881,685	$ 666,607	$ 215,078	32.3%
Interest-bearing	2,407,421	2,234,241	173,180	7.8%
Total deposits	$ 3,289,106	$ 2,900,848	$ 388,258	13.4%
Securities sold under agreements to repurchase	$ 172,972	$ 198,893	$ (25,921)	(13.0)%
Long-term debt	80,000	50,000	30,000	60.0%

Total liabilities	$	3,625,790	$	3,231,968	$	393,822	12.2%
Stockholders equity	$	373,186	$	433,639	$	(60,453)	(13.9)%

Total assets increased by $333.4 million, or 9.1%, to $4.00 billion at December 31, 2015, as compared to $3.67 billion at December 31, 2014. Securities increased by $123.2 million, or 16.2%, at December 31, 2015, compared to December 31, 2014 as a result of the Herget Financial acquisition and deployment of cash into the securities portfolio. Loans, net increased by $221.4 million, or 9.3%, at December 31, 2015, compared to December 31, 2014, impacted by organic growth and the benefit of loans obtained as part of the Herget Financial acquisition.

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Total liabilities increased by $393.8 million, or 12.2%, to $3.63 billion at December 31, 2015 compared to $3.23 billion at December 31, 2014. Total deposits increased by $388.3 million, or 13.4%, at December 31, 2015, compared to December 31, 2014 as the Company remains strongly core deposit funded, with solid liquidity and significant market share in the communities it serves. Securities sold under agreements to repurchase decreased $25.9 million, or 13.0%, due to fluctuations in customer balances. The Company borrowed $30.0 million in 2015, in addition to $50.0 million in 2014, of long-term debt from the FHLB, which is at variable rates and prepayable, as part of its ongoing balance sheet strategy.

Stockholders equity decreased to $373.2 million at December 31, 2015, as compared to $433.6 million at December 31, 2014. On December 18, 2015, the Company redeemed all of the 72,664 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series C, that had been issued to the United States Department of Treasury pursuant to the SBLF program. The shares were redeemed at their liquidation value of $1,000 per share plus accrued and unpaid dividends to, but excluding December 18, 2015. 2015 earnings, partially offset by dividends paid on preferred and common stock also impacted stockholders equity.

Investment Securities

The Company has classified the majority of its investment securities as available for sale. Securities available for sale are carried at fair value. Securities held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts. As of December 31, 2015, the fair value of securities available for sale was $834.8 million and the amortized cost was $830.9 million. There were $6.2 million of gross unrealized gains and $2.3 million of gross unrealized losses for a net unrealized gain of $3.9 million. The unrealized gain, net of tax, of $2.3 million has been included in stockholders equity. As of December 31, 2015, the cost of securities held to maturity was $49.8 million and the fair value was $50.3 million.

The composition of securities available for sale was as follows:

	As of December 31, (dollars in thousands)				
	2015	**2014**	**2013**	**2012**	**2011**
U.S. Treasury securities	$ 65,191	$ 50,606	$ 102,640	$ 104,656	$ 46,035
Obligations of U.S. government corporations and agencies	132,605	167,010	257,411	370,194	349,031
Obligations of states and political subdivisions	178,612	220,161	272,152	280,288	154,437
Residential mortgage-backed securities	307,549	235,636	177,735	217,715	278,115
Corporate debt securities	148,805	79,307	25,506	24,714	2,583
Mutual funds and other equity securities	2,076	6,345	5,866	3,930	1,548
Fair value of securities available for sale	$ 834,838	$ 759,065	$ 841,310	$ 1,001,497	$ 831,749
Amortized cost	$ 830,935	$ 749,364	$ 833,735	$ 978,477	$ 809,439
Fair value as a percentage of amortized cost	100.47%	101.29%	100.91%	102.35%	102.76%

The Company had $49.8 million, $2.4 million and $0.8 million of securities classified as held to maturity at December 31, 2015, 2014 and 2013, respectively. There were no held to maturity securities in the prior years. Held to maturity securities are primarily obligations of states and political subdivisions. The increase in securities classified as held to maturity in 2015 primarily relates to the Herget Financial acquisition.

The primary purposes of the investment portfolio include providing a source of liquidity, providing collateral for pledging purposes against public monies and repurchase agreements, serving as a tool for interest rate risk positioning and providing a source of earnings by deploying funds which are not needed to fulfill loan demand, deposit redemptions or other liquidity purposes. Pledged securities totaled $627.4 million, or 70.9% of total securities, and $536.2 million, or 70.4% of total securities at December 31, 2015 and 2014, respectively.

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The maturities, fair values and weighted average yields of securities available for sale and held to maturity as of December 31, 2015 were:

Available for sale(1) (2)	**Due in 1 year or less**		**Due after 1 year through 5 years**		**Due after 5 years through 10 years**		**Due after 10 years**	
	Fair Value	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**
	(dollars in thousands)							
U.S. Treasury securities	$	%	$ 64,611	1.21%	$ 580	2.11%	$	%
Obligations of U.S. government corporations and agencies	78,558	1.07%	54,047	1.14%		%		%
Obligations of states and political subdivisions(4)	37,933	2.51%	109,178	2.22%	28,924	5.05%	2,577	5.32%
Residential mortgage-backed securities		%	23,057	2.58%	60,752	2.47%	223,740	2.24%
Corporate debt securities	529	2.28%	144,968	2.35%	3,308	2.75%		%
Total	$ 117,020	1.54%	$ 395,861	1.98%	$ 93,564	3.28%	$ 226,317	2.28%

Held to maturity(1)	**Due in 1 year or less**		**Due after 1 year through 5 years**		**Due after 5 years through 10 years**		**Due after 10 years**	
	Fair Value	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**	**Fair Value**	**Weighted Average Yield(3)**
	(dollars in thousands)							
Obligations of states and political subdivisions(4)	$ 1,570	1.29%	$ 18,202	2.32%	$ 25,274	3.12%	$ 4,204	3.38%
Commercial mortgage-backed securities		%		%	1,021	3.21%		%
Total	$ 1,570	1.29%	$ 18,202	2.32%	$ 26,295	3.12%	$ 4,204	3.38%

(1) Securities are presented based upon final contractual maturity or pre-refunded date.

(2) Excludes mutual funds and other equity securities.

(3) Securities with floating rates are assumed to remain constant at their rates as of December 31, 2015.

(4) Weighted average yield calculated on a tax-equivalent basis, assuming a federal income tax rate of 35%.

Overall in 2015, the investment portfolio increased by 16.2% as a result of the Herget Financial acquisition and deployment of cash into the securities portfolio. We consider many factors in determining the composition of our investment portfolio including, but not limited to, credit quality, duration, interest rate risk, liquidity, tax-equivalent yield, regulatory and overall portfolio allocation. As of December 31, 2015, the Company did not have any non-U.S. Treasury securities or obligations of U.S. government corporations and agencies issued securities that exceeded 10% of the Company s total stockholders equity.

Loan Portfolio

The composition of our loan portfolio as of the dates indicated was as follows:

	As of December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands)				
Commercial	$ 656,576	$ 601,760	$ 580,612	$ 433,688	$ 407,855
Commercial real estate	1,208,429	1,104,151	1,092,273	981,132	980,216
Real estate construction	96,568	107,054	78,855	86,101	104,865
Retail real estate	660,542	592,473	534,493	559,836	540,146
Retail other	14,975	10,252	9,067	12,353	18,262
Total gross loans	$ 2,637,090	$ 2,415,690	$ 2,295,300	$ 2,073,110	$ 2,051,344

Total gross loans, including loans held for sale and deferred loan fees, before allowance for loan losses, increased 9.2% to $2.64 billion as of December 31, 2015 from $2.41 billion at December 31, 2014. The growth was the result of organic growth and the addition of loans obtained as part of the Herget Financial acquisition. Our focus over the past several years has been to grow loans through relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship.

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Geographic distributions of loans by category were as follows:

	December 31, 2015			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$606,542	$ 16,141	$ 33,893	$ 656,576
Commercial real estate	907,628	166,885	133,916	1,208,429
Real estate construction	47,466	15,032	34,070	96,568
Retail real estate	532,001	108,978	19,563	660,542
Retail other	14,125	850		14,975
Total gross loans	$ 2,107,762	$ 307,886	$ 221,442	$ 2,637,090
Less held for sale(1)				9,351
				$ 2,627,739
Less allowance for loan losses				47,487
Net loans				$ 2,580,252

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

	December 31, 2014			
	Illinois	Florida	Indiana	Total
	(dollars in thousands)			
Commercial	$ 554,779	$ 16,739	$ 30,242	$ 601,760
Commercial real estate	811,034	171,243	121,874	1,104,151
Real estate construction	60,994	17,950	28,110	107,054
Retail real estate	473,171	106,658	12,644	592,473
Retail other	9,690	562		10,252
Total gross loans	$ 1,909,668	$ 313,152	$ 192,870	$ 2,415,690
Less held for sale(1)				10,400
				$ 2,405,290
Less allowance for loan losses				47,453
Net loans				$ 2,357,837

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

Total gross loans, as of December 31, 2015 increased $221.4 million from December 31, 2014; gross commercial balances (consisting of commercial, commercial real estate and real estate construction loans) increased $148.6 million from December 31, 2014. As of December 31, 2015, gross retail real estate loans and retail other loans increased $72.8 million from December 31, 2014. Achieving growth through organic means while maintaining our strong commitment to credit quality remains a focus, and was supplemented during the first quarter of 2015 by the Herget Financial acquisition.

Commitments under standby letters of credit, unused lines of credit and other conditionally approved credit lines totaled approximately $633.9 million and $581.9 million as of December 31, 2015 and 2014, respectively.

As illustrated by the tables above, we have a concentration of loans within commercial real estate. Generally, these loans are collateralized by assets of the borrowers. The loans are expected to be repaid from cash flows from operations of the property or the borrower or from proceeds from the sale of selected assets of the borrowers.

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The following table sets forth remaining maturities of selected loans (excluding loan accretion and certain real estate-mortgage loans and installment loans to individuals) at December 31, 2015:

	1 Year or Less	1 to 5 Years	Over 5 Years	Total
		(dollars in thousands)		
Commercial	$ 383,088	$ 204,550	$ 69,085	$ 656,723
Commercial real estate	198,748	789,998	220,755	1,209,501
Real estate construction	51,991	40,587	4,036	96,614
Total	$ 633,827	$ 1,035,135	$ 293,876	$ 1,962,838
Interest rate sensitivity of selected loans				
Fixed rate	$ 399,046	$ 784,879	$ 264,416	$ 1,448,341
Adjustable rate	234,781	250,256	29,460	514,497
Total	$ 633,827	$ 1,035,135	$ 293,876	$ 1,962,838

Allowance for Loan Losses

The following table shows activity affecting the allowance for loan losses:

			Years ended December 31,		
	2015	2014	2013	2012	2011
			(dollars in thousands)		
Average loans outstanding during period	$ 2,532,459	$ 2,301,358	$ 2,126,536	$ 2,014,797	$ 2,173,408
Allowance for loan losses:					
Balance at beginning of period	$ 47,453	$ 47,567	$ 48,012	$ 58,506	$ 76,038
Loans charged-off:					
Commercial	$ (1,333)	$ (1,990)	$ (964)	$ (4,422)	$ (10,726)
Commercial real estate	(1,462)	(1,173)	(3,904)	(15,874)	(14,298)
Real estate construction		(726)	(1,268)	(2,219)	(7,556)
Retail real estate	(1,534)	(3,052)	(4,015)	(6,910)	(12,165)