FIRST BUSEY CORP /NV/
Form 10-Q
August 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 6/30/2012

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	**Outstanding at August 7, 2012**
Common Stock, $.001 par value	86,631,088

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30, 2012 and December 31, 2011

(Unaudited)

		June 30, 2012		December 31, 2011
		(dollars in thousands)		
Assets				
Cash and due from banks (interest-bearing 2012 $239,993; 2011 $219,879)	$	320,349	$	315,053
Securities available for sale		980,785		831,749
Loans held for sale		35,060		15,249
Loans (net of allowance for loan losses 2012 $50,866; 2011 $58,506)		1,936,005		1,977,589
Premises and equipment		70,119		69,398
Goodwill		20,686		20,686
Other intangible assets		14,364		16,018
Cash surrender value of bank owned life insurance		38,904		37,882
Other real estate owned (OREO)		7,783		8,452
Deferred tax asset, net		42,210		48,236
Other assets		58,458		61,810
Total assets	$	3,524,723	$	3,402,122
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Non-interest-bearing	$	555,560	$	503,118
Interest-bearing		2,339,550		2,260,336
Total deposits	$	2,895,110	$	2,763,454
Securities sold under agreements to repurchase		119,115		127,867
Long-term debt		14,417		19,417
Junior subordinated debt owed to unconsolidated trusts		55,000		55,000
Other liabilities		26,234		27,117
Total liabilities	$	3,109,876	$	2,992,855
Stockholders Equity				
Series C Preferred stock, $.001 par value, 72,664 shares authorized, issued and outstanding, $1,000.00 liquidation value	$	72,664	$	72,664
Common stock, $.001 par value, authorized 200,000,000 shares; shares issued 88,287,132		88		88
Additional paid-in capital		594,364		594,009
Accumulated deficit		(234,343)		(238,085)
Accumulated other comprehensive income		14,421		13,124
Total stockholders equity before treasury stock and unearned ESOP shares	$	447,194	$	441,800
Common stock shares held in treasury at cost 2012 1,636,044; 2011 1,646,726		(31,930)		(32,116)
Unearned ESOP shares 20,000 shares		(417)		(417)
Total stockholders equity	$	414,847	$	409,267
Total liabilities and stockholders equity	$	3,524,723	$	3,402,122
Common shares outstanding at period end		86,631,088		86,620,406

See accompanying notes to unaudited consolidated financial statements.

3

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

		2012		2011
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	50,038	$	59,681
Interest and dividends on investment securities:				
Taxable interest income		7,605		7,712
Non-taxable interest income		1,678		1,382
Dividends				4
Total interest income	$	59,321	$	68,779
Interest expense:				
Deposits	$	7,066	$	10,079
Securities sold under agreements to repurchase		154		211
Short-term borrowings		18		20
Long-term debt		446		982
Junior subordinated debt owed to unconsolidated trusts		665		1,299
Total interest expense	$	8,349	$	12,591
Net interest income	$	50,972	$	56,188
Provision for loan losses		9,500		10,000
Net interest income after provision for loan losses	$	41,472	$	46,188
Other income:				
Trust fees	$	9,285	$	8,305
Commissions and brokers fees, net		1,070		920
Remittance processing		4,278		4,784
Service charges on deposit accounts		5,684		6,230
Other service charges and fees		2,824		2,622
Gain on sales of loans		5,669		4,467
Security gains (losses), net		64		(2)
Other		4,776		1,959
Total other income	$	33,650	$	29,285
Other expense:				
Salaries and wages	$	25,259	$	19,588
Employee benefits		6,018		5,265
Net occupancy expense of premises		4,361		4,551
Furniture and equipment expense		2,582		2,664
Data processing		4,798		4,280
Amortization of intangible assets		1,654		1,768
Regulatory expense		1,246		3,155
OREO expense		515		347
Other		10,548		9,232
Total other expense	$	56,981	$	50,850
Income before income taxes	$	18,141	$	24,623
Income taxes		5,610		8,066
Net income	$	12,531	$	16,557
Preferred stock dividends and discount accretion		1,816		3,059
Net income available to common stockholders	$	10,715	$	13,498
Basic earnings per common share	$	0.12	$	0.16
Diluted earnings per common share	$	0.12	$	0.16
Dividends declared per share of common stock	$	0.08	$	0.08

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30, 2012 and 2011

(Unaudited)

		2012		2011
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	24,512	$	29,173
Interest and dividends on investment securities:				
Taxable interest income		3,837		4,023
Non-taxable interest income		876		677
Total interest income	$	29,225	$	33,873
Interest expense:				
Deposits	$	3,318	$	4,820
Securities sold under agreements to repurchase		76		100
Short-term borrowings		9		10
Long-term debt		220		486
Junior subordinated debt owed to unconsolidated trusts		328		616
Total interest expense	$	3,951	$	6,032
Net interest income	$	25,274	$	27,841
Provision for loan losses		4,500		5,000
Net interest income after provision for loan losses	$	20,774	$	22,841
Other income:				
Trust fees	$	4,090	$	3,757
Commissions and brokers fees, net		564		479
Remittance processing		2,111		2,403
Service charges on deposit accounts		2,873		3,183
Other service charges and fees		1,443		1,340
Gain on sales of loans		3,256		1,835
Security gains, net		64		
Other		1,369		749
Total other income	$	15,770	$	13,746
Other expense:				
Salaries and wages	$	13,148	$	10,028
Employee benefits		3,122		2,506
Net occupancy expense of premises		2,156		2,136
Furniture and equipment expense		1,310		1,340
Data processing		2,639		2,170
Amortization of intangible assets		827		884
Regulatory expense		620		1,308
OREO expense		510		135
Other		5,447		4,678
Total other expense	$	29,779	$	25,185
Income before income taxes	$	6,765	$	11,402
Income taxes		1,877		3,955
Net income	$	4,888	$	7,447
Preferred stock dividends and discount accretion		908		1,283
Net income available to common stockholders	$	3,980	$	6,164
Basic earnings per common share	$	0.05	$	0.07
Diluted earnings per common share	$	0.05	$	0.07
Dividends declared per share of common stock	$	0.04	$	0.04

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(dollars in thousands)			
Net income	$ 4,888	$ 7,447	$ 12,531	$ 16,557
Other comprehensive income, before tax:				
Unrealized net gains (losses) on securities:				
Unrealized net holding gains arising during period	$ 2,465	$ 5,221	$ 2,269	$ 4,117
Reclassification adjustment for (gains) losses included in net income	(64)		(64)	2
Other comprehensive income, before tax	$ 2,401	$ 5,221	$ 2,205	$ 4,119
Income tax expense related to items of other comprehensive income	988	2,176	908	1,910
Other comprehensive income, net of tax	$ 1,413	$ 3,045	$ 1,297	$ 2,209
Comprehensive income	$ 6,301	$ 10,492	$ 13,828	$ 18,766

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

	2012	2011
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 12,531	$ 16,557
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	449	143
Depreciation and amortization	4,324	4,563
Provision for loan losses	9,500	10,000
Provision for deferred income taxes	5,118	7,116
Amortization of security premiums and discounts, net	4,618	2,822
Net security (gains) losses	(64)	2
Gain on sales of loans, net	(5,669)	(4,467)
Net (gain) loss on sales of OREO properties	(216)	178
Increase in cash surrender value of bank owned life insurance	(1,022)	(802)
Change in assets and liabilities:		
Decrease in other assets	2,202	6,787
Decrease in other liabilities	(427)	(4,296)
Decrease in interest payable	(408)	(1,068)
Decrease in income taxes receivable	1,150	710
Net cash provided by operating activities before loan originations and sales	$ 32,086	$ 38,245
Loans originated for sale	(297,680)	(195,648)
Proceeds from sales of loans	283,538	224,919
Net cash provided by operating activities	$ 17,944	$ 67,516
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	17,308	6,633
Proceeds from maturities of securities classified available for sale	100,970	53,942
Purchase of securities classified available for sale	(269,663)	(202,615)
Decrease in loans	27,193	156,291
Proceeds from disposition of premises and equipment	19	946
Proceeds from sale of OREO properties	5,776	4,860
Purchases of premises and equipment	(3,410)	(1,685)
Net cash (used in) provided by investing activities	$ (121,807)	$ 18,372

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

	2012		2011	
	(dollars in thousands)			
Cash Flows from Financing Activities				
Net decrease in certificates of deposit	$	(67,544)	$	(140,145)
Net increase in demand, money market and savings deposits		199,200		37,620
Cash dividends paid		(8,745)		(9,624)
Net decrease in securities sold under agreements to repurchase		(8,752)		(12,186)
Principal payments on long-term debt		(5,000)		(23,325)
Net cash provided by (used in) financing activities	$	109,159	$	(147,660)
Net increase (decrease) in cash and due from banks	$	5,296	$	(61,772)
Cash and due from banks, beginning	$	315,053	$	418,965
Cash and due from banks, ending	$	320,349	$	357,193

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:				
Interest	$	8,757	$	13,659
Income taxes	$	70	$	906
Non-cash investing and financing activities:				
Other real estate acquired in settlement of loans	$	4,891	$	2,733
Dividends accrued	$	924	$	768
Conversion of Series B Preferred stock to Common stock	$		$	31,862

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for Quarterly Reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

The accompanying consolidated balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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

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

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended June 30, 2012 through the issuance date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statements, except as disclosed in Note 7.

Note 2: Recent Accounting Pronouncements

FASB ASC Topic 210, Disclosures about Offsetting Assets and Liabilities. New authoritative accounting guidance (Accounting Standards Update No. 2011-11) under ASC Topic 210 requires enhanced disclosure about offsetting and related arrangements to enable users of an issuer s financial statements to understand the effect of those arrangements on its financial position. This update will be effective for the annual periods beginning after January 1, 2013, and is not expected to have a significant impact on the Company s financial statements.

FASB ASC Topic 220,   Presentation of Comprehensive Income.   New authoritative accounting guidance (Accounting Standards Update No. 2011-05) under ASC Topic 220 amends Topic 220,   Comprehensive Income,   to require all nonowner changes in stockholders   equity to be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update became effective for annual periods beginning after December 15, 2011, and resulted in a change to the presentation of comprehensive income in the Company   s financial statements.

FASB ASC Topic 820,   *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* New authoritative accounting guidance (Accounting Standards Update No. 2011-04) under ASC Topic 820 amends Topic 820 to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. The guidance clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional disclosures. This update became effective for annual periods beginning after December 15, 2011 and new disclosures are included in this Quarterly Report.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
June 30, 2012:				
U.S. Treasury securities	$ 86,714	$ 1,440	$	$ 88,154
Obligations of U.S. government corporations and agencies	381,565	7,431		388,996
Obligations of states and political subdivisions	225,530	5,890	(167)	231,253
Residential mortgage-backed securities	257,174	8,473		265,647
Corporate debt securities	2,451	91		2,542
	953,434	23,325	(167)	976,592
Mutual funds and other equity securities	2,837	1,356		4,193
	$ 956,271	$ 24,681	$ (167)	$ 980,785

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
December 31, 2011:				
U.S. Treasury securities	$ 45,550	$ 485	$	$ 46,035
Obligations of U.S. government corporations and agencies	339,983	9,083	(35)	349,031
Obligations of states and political subdivisions	149,368	5,193	(124)	154,437
Residential mortgage-backed securities	271,787	6,374	(46)	278,115
Corporate debt securities	2,532	73	(22)	2,583
	809,220	21,208	(227)	830,201
Mutual funds and other equity securities	219	1,329		1,548
	$ 809,439	$ 22,537	$ (227)	$ 831,749

The amortized cost and fair value of debt securities available for sale as of June 30, 2012, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying the residential mortgage-backed securities may be called or prepaid without penalties; therefore, actual maturities could differ from the contractual maturities. All residential mortgage-backed securities were issued by U.S. government agencies and corporations.

	Amortized Cost	Fair Value
	(dollars in thousands)	
Due in one year or less	$ 116,947	$ 118,173
Due after one year through five years	499,202	508,670
Due after five years through ten years	263,988	272,494
Due after ten years	73,297	77,255

	$	953,434	$	976,592

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

	Three Months Ended June 30,			
	2012		2011	
	(dollars in thousands)			
Gross security gains	$	64	$	
Gross security (losses)				
Net security (losses) gains	$	64	$	

	Six Months Ended June 30,			
	2012		2011	
	(dollars in thousands)			
Gross security gains	$	64	$	
Gross security (losses)				(2)
Net security (losses) gains	$	64	$	(2)

The tax provision for these net realized gains and losses was insignificant for the three and six months ended June 30, 2012 and 2011.

Investment securities with carrying amounts of $437.6 million and $359.9 million on June 30, 2012 and December 31, 2011, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at June 30, 2012 and December 31, 2011 aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	Less than 12 months				Greater than 12 months				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
	(dollars in thousands)											
June 30, 2012:												
Obligations of states and political subdivisions(1)	$	37,010	$	167	$	145	$		$	37,155	$	167
Corporate debt securities(1)		189								189		
Total temporarily impaired securities	$	37,199	$	167	$	145	$		$	37,344	$	167

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

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
December 31, 2011:						

Obligations of U.S. government corporations and agencies	$	15,615	$	35	$		$		$	15,615	$	35
Obligations of states and political subdivisions		21,037		124						21,037		124
Residential mortgage-backed securities		16,428		46						16,428		46
Corporate debt securities		455		22						455		22
Total temporarily impaired securities	$	53,535	$	227	$		$		$	53,535	$	227

The total number of securities in the investment portfolio in an unrealized loss position as of June 30, 2012 was 108, and represented a loss of 0.45% of the aggregate carrying value. Based upon a review of unrealized loss circumstances, the unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of receiving the contractual cash flows. The Company does not intend to sell the securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2012.

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

Note 4: Loans

Geographic distributions of loans were as follows:

	June 30, 2012			
	Illinois	**Florida**	**Indiana**	**Total**
		(dollars in thousands)		
Commercial	$ 362,325	$ 12,640	$ 21,489	$ 396,454
Commercial real estate	753,879	135,852	54,592	944,323
Real estate construction	68,975	15,252	23,161	107,388
Retail real estate	435,560	114,802	9,040	559,402
Retail other	13,816	426	122	14,364
Total	$ 1,634,555	$ 278,972	$ 108,404	$ 2,021,931
Less held for sale(1)				35,060
				$ 1,986,871
Less allowance for loan losses				50,866
Net loans				$ 1,936,005

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

	December 31, 2011			
	Illinois	**Florida**	**Indiana**	**Total**
		(dollars in thousands)		
Commercial	$ 375,238	$ 10,830	$ 21,787	$ 407,855
Commercial real estate	793,769	135,360	51,087	980,216
Real estate construction	72,569	16,186	16,110	104,865
Retail real estate	410,844	120,190	9,112	540,146
Retail other	17,547	581	134	18,262
Total	$ 1,669,967	$ 283,147	$ 98,230	$ 2,051,344

Less held for sale(1)		15,249
	$	2,036,095
Less allowance for loan losses		58,506
Net loans	$	1,977,589

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

Net deferred loan origination costs included in the tables above were $0.7 million as of both June 30, 2012 and December 31, 2011.

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

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

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

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

The Company s lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction, retail real estate loans, and other retail loans. A description of each of the lending areas can be found in the Company s Annual Rep