FIRST BUSEY CORP /NV/
Form 10-Q
August 07, 2018
Table of Contents

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 6/30/2018

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

100 W. University Ave. Champaign, Illinois	**61820**
(Address of principal executive offices)	(Zip code)

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

N/A

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No 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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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, 2018
Common Stock, $.001 par value	48,777,809

Table of Contents

FIRST BUSEY CORPORATION

FORM 10-Q

June 30, 2018

Table of Contents

Part I	**FINANCIAL INFORMATION**	
Item 1.	FINANCIAL STATEMENTS	3
	CONSOLIDATED BALANCE SHEETS	4
	CONSOLIDATED STATEMENTS OF INCOME	5
	CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	7
	CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY	8
	CONSOLIDATED STATEMENTS OF CASH FLOWS	9
	NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS	11
Item 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	45
Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	62
Item 4.	CONTROLS AND PROCEDURES	63
Part II	**OTHER INFORMATION**	
Item 1.	LEGAL PROCEEDINGS	63
Item 1A.	RISK FACTORS	63
Item 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	63
Item 3.	DEFAULTS UPON SENIOR SECURITES	63
Item 4.	MINE SAFETY DISCLOSURES	63
Item 5.	OTHER INFORMATION	63
Item 6.	EXHIBITS	64
	SIGNATURES	65

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30, 2018 and December 31, 2017

(Unaudited)

	June 30, 2018	December 31, 2017
	(dollars in thousands)	
Assets		
Cash and cash equivalents (interest-bearing 2018 $126,402; 2017 $234,889)	$ 230,730	$ 353,272
Securities available for sale	871,338	872,682
Securities held to maturity	507,780	443,550
Securities equity investments	5,689	5,378
Loans held for sale	33,974	94,848
Portfolio loans (net of allowance for loan losses 2018 $53,305; 2017 $53,582)	5,501,982	5,465,918
Premises and equipment, net	119,835	116,913
Goodwill	267,685	269,346
Other intangible assets, net	35,722	38,727
Cash surrender value of bank owned life insurance	127,965	126,737
Deferred tax asset, net	16,665	17,296
Other assets	56,179	55,973
Total assets	$ 7,775,544	$ 7,860,640
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,496,671	$ 1,597,421
Interest-bearing	4,667,241	4,528,544
Total deposits	$ 6,163,912	$ 6,125,965
Securities sold under agreements to repurchase	240,109	304,566
Short-term borrowings	150,000	220,000
Long-term debt	50,000	50,000
Senior notes, net of unamortized issuance costs	39,472	39,404
Subordinated notes, net of unamortized issuance costs	64,653	64,715
Junior subordinated debt owed to unconsolidated trusts	71,081	71,008
Other liabilities	39,135	49,979
Total liabilities	$ 6,818,362	$ 6,925,637
Commitments and contingencies (See Note 13)		
Stockholders Equity		
Common stock, $.001 par value, authorized 66,666,667 shares; shares issued 2018 and 2017 49,185,581	$ 49	$ 49
Additional paid-in capital	1,082,323	1,084,889
Accumulated deficit	(104,504)	(132,122)
Accumulated other comprehensive loss	(10,865)	(2,810)
Total stockholders equity before treasury stock	$ 967,003	$ 950,006
Common stock shares held in treasury at cost, 2018 409,177; 2017 500,638	(9,821)	(15,003)
Total stockholders equity	$ 957,182	$ 935,003
Total liabilities and stockholders equity	$ 7,775,544	$ 7,860,640

Common shares outstanding at period end	48,776,404	48,684,943

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

	2018		2017	
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	123,250	$	81,833
Interest and dividends on investment securities:				
Taxable interest income		13,244		7,650
Non-taxable interest income		2,464		1,453
Total interest income	$	138,958	$	90,936
Interest expense:				
Deposits	$	12,891	$	4,207
Federal funds purchased and securities sold under agreements to repurchase		713		327
Short-term borrowings		933		74
Long-term debt		377		280
Senior notes		799		162
Subordinated notes		1,587		299
Junior subordinated debt owed to unconsolidated trusts		1,529		1,208
Total interest expense	$	18,829	$	6,557
Net interest income	$	120,129	$	84,379
Provision for loan losses		3,266		1,000
Net interest income after provision for loan losses	$	116,863	$	83,379
Non-interest income:				
Trust fees	$	14,249	$	12,017
Commissions and brokers fees, net		1,979		1,473
Remittance processing		6,958		5,704
Fees for customer services		14,236		12,081
Mortgage revenue		3,216		4,904
Security gains, net		160		853
Other		4,490		3,044
Total non-interest income	$	45,288	$	40,076
Non-interest expense:				
Salaries, wages and employee benefits	$	54,291	$	41,951
Net occupancy expense of premises		7,510		6,311
Furniture and equipment expenses		3,703		3,338
Data processing		8,375		6,235
Amortization of intangible assets		3,005		2,389
Other		21,461		14,163
Total non-interest expense	$	98,345	$	74,387
Income before income taxes	$	63,806	$	49,068
Income taxes		17,027		17,419
Net income	$	46,779	$	31,649
Basic earnings per common share	$	0.96	$	0.83
Diluted earnings per common share	$	0.95	$	0.82
Dividends declared per share of common stock	$	0.40	$	0.36

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30, 2018 and 2017

(Unaudited)

		2018		2017
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	62,290	$	41,236
Interest and dividends on investment securities:				
Taxable interest income		6,831		4,047
Non-taxable interest income		1,204		726
Total interest income	$	70,325	$	46,009
Interest expense:				
Deposits	$	6,904	$	2,163
Federal funds purchased and securities sold under agreements to repurchase		372		204
Short-term borrowings		457		27
Long-term debt		213		167
Senior notes		399		162
Subordinated notes		794		299
Junior subordinated debt owed to unconsolidated trusts		814		621
Total interest expense	$	9,953	$	3,643
Net interest income	$	60,372	$	42,366
Provision for loan losses		2,258		500
Net interest income after provision for loan losses	$	58,114	$	41,866
Non-interest income:				
Trust fees	$	6,735	$	5,827
Commissions and brokers fees, net		883		751
Remittance processing		3,566		2,859
Fees for customer services		7,290		6,095
Mortgage revenue		1,573		2,770
Security gains (losses), net		160		(4)
Other		2,595		1,764
Total non-interest income	$	22,802	$	20,062
Non-interest expense:				
Salaries, wages and employee benefits	$	25,472	$	20,061
Net occupancy expense of premises		3,689		3,126
Furniture and equipment expenses		1,790		1,719
Data processing		4,030		3,306
Amortization of intangible assets		1,490		1,182
Other		10,834		7,374
Total non-interest expense	$	47,305	$	36,768
Income before income taxes	$	33,611	$	25,160
Income taxes		8,749		8,681
Net income	$	24,862	$	16,479
Basic earnings per common share	$	0.51	$	0.43
Diluted earnings per common share	$	0.51	$	0.43
Dividends declared per share of common stock	$	0.20	$	0.18

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2018 and 2017

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Net income	$ 24,862	$ 16,479	$ 46,779	$ 31,649
Other comprehensive (loss) income, before tax:				
Securities available for sale:				
Unrealized net (losses) gains on securities:				
Unrealized net holding (losses) gains arising during period	$ (1,506)	$ 728	$ (10,260)	$ 1,301
Reclassification adjustment for losses (gains) included in net income	(160)	4	(160)	(853)
Other comprehensive (loss) income, before tax	$ (1,666)	$ 732	$ (10,420)	$ 448
Income tax (benefit) expense related to items of other comprehensive income	(475)	292	(2,970)	179
Other comprehensive (loss) income, net of tax	$ (1,191)	$ 440	$ (7,450)	$ 269
Comprehensive income	$ 23,671	$ 16,919	$ 39,329	$ 31,918

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance, December 31, 2016	$ 39	$ 781,716	$ (163,689)	$ 36	$ (23,788)	$ 594,314
Net income			31,649			31,649
Other comprehensive income				269		269
Issuance of treasury stock for employee stock purchase plan		(361)			664	303
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(969)			914	(55)
Net issuance of stock options exercised, net of shares redeemed		(784)			921	137
Cash dividends common stock at $0.36 per share			(13,764)			(13,764)
Stock dividend equivalents restricted stock units at $0.36 per share		181	(181)			
Stock dividend accrued on restricted stock awards assumed with the Pulaski Financial Corp. acquisition at $0.36 per share			(11)			(11)
Return of 28,648 equity trust shares					(860)	(860)
Stock-based compensation		1,133				1,133
Balance, June 30, 2017	$ 39	$ 780,916	$ (145,996)	$ 305	$ (22,149)	$ 613,115
Balance, December 31, 2017	$ 49	$ 1,084,889	$ (132,122)	$ (2,810)	$ (15,003)	$ 935,003
Net income			46,779			46,779
Other comprehensive loss				(7,450)		(7,450)
Tax Cuts and Jobs Act (TCJA) of 2017 reclassification			605	(605)		
Issuance of treasury stock for employee stock purchase plan		(328)			666	338
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(1,875)			1,803	(72)
Net issuance of stock options exercised, net of shares redeemed		(2,367)			2,713	346

Cash dividends common stock at $0.40 per share			(19,482)			(19,482)
Stock dividend equivalents restricted stock units at $0.40 per share		282	(284)			(2)
Stock-based compensation		1,722				1,722
Balance, June 30, 2018	$ 49	$ 1,082,323	$ (104,504)	$ (10,865)	$ (9,821)	$ 957,182

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 46,779	$ 31,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	1,722	1,133
Depreciation	4,748	3,862
Amortization of intangible assets	3,005	2,389
Premises and equipment impairment	817	
Provision for loan losses	3,266	1,000
Provision for deferred income taxes	3,601	2,031
Amortization of security premiums and discounts, net	4,485	2,543
Accretion of premiums and discounts on time deposits and trust preferred securities, net	(49)	(198)
Accretion of premiums and discounts on portfolio loans, net	(6,375)	(3,270)
Security gains, net	(160)	(853)
Change in equity securities, net	(1,071)	
Gain on sales of mortgage loans, net of origination costs	(5,095)	(26,136)
Mortgage loans originated for sale	(219,252)	(758,338)
Proceeds from sales of mortgage loans	285,221	866,635
Net losses (gains) on disposition of premises and equipment	105	(56)
Increase in cash surrender value of bank owned life insurance	(1,228)	(888)
Change in assets and liabilities:		
Decrease in other assets	1,393	7,879
(Decrease) increase in other liabilities	(12,981)	4,839
Increase in interest payable	1,618	396
Decrease in income taxes receivable	1,214	523
Net cash provided by operating activities before activities	$ 111,763	$ 135,140
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale		127,287
Proceeds from sales of securities classified equity	920	
Proceeds from maturities of securities classified available for sale	82,817	103,249
Proceeds from maturities of securities classified held to maturity	18,033	2,819
Purchase of securities classified available for sale	(93,591)	(116,327)
Purchase of securities classified held to maturity	(85,050)	(164,803)
Net (increase) in portfolio loans	(36,080)	(32,403)
Proceeds from disposition of premises and equipment	2	611
Proceeds from sale of other real estate owned (OREO) properties	722	3,765
Purchases of premises and equipment	(8,594)	(6,054)
Proceeds from the redemption of Federal Home Loan Bank (FHLB) stock, net	2,114	6,001
Net cash used in investing activities	$ (118,707)	$ (75,855)

(continued on next page)

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

		2018		2017
		(dollars in thousands)		
Cash Flows from Financing Activities				
Net increase (decrease) in certificates of deposit	$	138,466	$	(64,286)
Net (decrease) increase in demand, money market and savings deposits		(100,397)		84,468
Net (decrease) in securities sold under agreements to repurchase		(64,457)		(10,560)
Repayment of short-term borrowings		(70,000)		(25,000)
Net proceeds from issuance of senior debt				39,351
Net proceeds from issuance of subordinated debt				59,022
Cash dividends paid		(19,482)		(13,764)
Value of shares surrendered upon vesting to satisfy tax withholding obligations of stock-based compensation		(74)		(1,259)
Proceeds from stock options exercised		346		137
Net cash (used in) provided by financing activities	$	(115,598)	$	68,109
Net (decrease) increase in cash and cash equivalents	$	(122,542)	$	127,394
Cash and cash equivalents, beginning of period	$	353,272	$	166,706
Cash and cash equivalents, ending of period	$	230,730	$	294,100
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash payments for:				
Interest	$	17,212	$	6,162
Income taxes	$	4,322	$	13,116
Non-cash investing and financing activities:				
Real estate acquired in settlement of loans	$	3,125	$	258

See accompanying notes to unaudited Consolidated Financial Statements.

Table of Contents

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Accounting Policies

Basis of Financial Statement Presentation

When preparing these unaudited Consolidated Financial Statements of First Busey Corporation and its subsidiaries (First Busey, Company, we, or our), a Nevada corporation, we have assumed that you have read the audited Consolidated Financial Statements included in our 2017 Form 10-K. These interim unaudited Consolidated Financial Statements serve to update our 2017 Form 10-K and may not include all information and notes necessary to constitute a complete set of Financial Statements.

We prepared these unaudited Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the current period presentation, which did not have a material impact on our consolidated financial condition or results of operations.

In our opinion, the unaudited Consolidated Financial Statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

We have also considered the impact of subsequent events on these unaudited Consolidated Financial Statements. There were no significant subsequent events for the quarter ended June 30, 2018 through the issuance date of these unaudited Consolidated Financial Statements that warranted adjustment to or disclosure in the unaudited Consolidated Financial Statements.

Use of Estimates

In preparing the accompanying unaudited 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 that are particularly susceptible to significant change in the near term relate to the fair value of available for sale investment securities, the fair value of assets acquired and liabilities assumed in business combinations and the determination of the allowance for loan losses.

Recently Issued Accounting Standards

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and establishes additional disclosures. The Company s revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The Company has evaluated its non-interest income and the nature of its contracts with customers and determined that further disaggregation of revenue beyond what is presented in the accompanying unaudited Consolidated Financial Statements was not necessary. The Company satisfies its performance obligations on its contracts with customers as services are rendered so there is limited judgement involved in applying Topic 606 that significantly affects the determination of the timing and amount of revenue from contracts with customers.

Descriptions of the Company s primary revenue generating activities that are within Topic 606, and are presented in the accompanying unaudited Consolidated Statements of Income as components of non-interest income, include trust fees, commission and brokers fees, net, remittance processing, and fees for customer services. Trust fees and commission and brokers fees, net, represents monthly fees due from wealth management customers as consideration for managing the customers assets. Wealth management and trust services include custody of assets, investment management, fees for trust services and other fiduciary activities. Also included are fees received from a third party broker-dealer as part of a revenue

Table of Contents

sharing agreement for fees earned from customers that the Company refers to the third party. Revenue is recognized when the performance obligation is completed, which is generally monthly. Remittance processing represents transaction-based fees for pay processing solutions such as online bill payments, lockbox and walk-in payments. Revenue is recognized when the performance obligation is completed, which is generally monthly. Fees for customer services represents general service fees for monthly account maintenance and activity or transaction-based fees and consists of transaction-based revenue, time-based revenue, or item-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. The adoption of this guidance on January 1, 2018 did not change the method in which non-interest income is recognized therefore a cumulative effect adjustment to retained earnings was not necessary.

ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires: equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets; eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the Balance Sheet; and requires an entity to present separately in other comprehensive income (loss) the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk when the fair value option has been elected for the liability. ASU 2016-01 was effective on January 1, 2018 and the adoption of this guidance resulted in separate classification of equity securities previously included in available for sale securities on the Consolidated Financial Statements. There was no cumulative effect adjustment recorded with the adoption of this guidance.

ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income was issued in February 2018. ASU 2018-02 allows companies to make a one-time reclassification from accumulated other comprehensive income (loss) to retained earnings for the effects of remeasuring deferred tax liabilities and assets originally recorded in other comprehensive income as a result of the change in the federal tax rate by the TCJA. The Company adopted this guidance in the first quarter of 2018 with no impact on total stockholders equity or net income.

ASU 2016-02, Leases (Topic 842). ASU 2016-02 intends to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the Consolidated Balance Sheet as a lease liability and a right-of-use asset. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, *ASU 2018-11, Leases (Topic 842): Targeted Improvements* was issued to allow companies to choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of retained earnings rather than recasting prior year results when they adopt the standard. The Company is evaluating the impact this guidance will have on its Consolidated Financial Statements and related disclosures. Where the Company is a lessee, the Company expects an increase in assets and liabilities to record the right of use asset and the lease liability.

ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements a change from current impaired loss model to an expected credit losses over the life of an instrument, including loans and securities held to maturity. The expected credit loss model is expected to result in earlier recognition of losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 including interim periods with those years. The Company has developed and is executing a project plan to implement this guidance. As part of that project plan, the Company will evaluate the impact this guidance will have on its Consolidated Financial Statements and related disclosures.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 is intended to simplify goodwill impairment testing by eliminating the second step of the analysis which required an entity to determine the fair value of its assets and liabilities as of the impairment test date. Instead, ASU 2017-04 requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit s fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. This guidance is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. ASU 2017-08 does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends Topic 815 to reduce the cost and complexity of applying hedge accounting and expand the types of relationships that qualify for hedge accounting. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness, requires all items that affect earnings to be presented in the same income statement line as the hedged item, provides for applying hedge accounting to additional hedging strategies, provides for new approaches to measuring the hedged item in fair value hedges of interest rate risk, and eases the requirements for effective testing and hedge documentation. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

ASU 2018-07, Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting was issued in June 2018. ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

Note 2: Acquisitions

First Community Financial Partners, Inc.

On July 2, 2017, the Company completed its acquisition of First Community Financial Partners, Inc. (First Community), which was headquartered in Joliet, Illinois and its wholly owned bank subsidiary, First Community Financial Bank. Founded in 2004, First Community operated nine banking centers in Will, DuPage and Grundy Counties, which encompass portions of the southwestern suburbs of Chicago. The operating results of First Community are included with the Company s results of operations since the date of acquisition. First Busey operated First Community Financial Bank as a separate subsidiary from July 3, 2017 until November 3, 2017, when it was merged with and into Busey Bank. At that time, First Community Financial Bank s banking centers became banking centers of Busey Bank.

Under the terms of the merger agreement with First Community, at the effective time of the acquisition, each share of First Community common stock issued and outstanding was converted into the right to receive 0.396 shares of the Company s common stock, cash in lieu of fractional

shares and $1.35 cash consideration per share. The market value of the 7.2 million shares of First Busey common stock issued at the effective time of the acquisition was approximately $211.1 million based on First Busey s closing stock price of $29.32 on June 30, 2017. In addition, certain options to purchase shares of First Community common stock that were outstanding at the acquisition date were converted into options to purchase shares of First Busey common stock, adjusted for the 0.44 option exchange ratio, and the fair value was included in the purchase price. Further, the purchase price included cash payouts relating to unconverted stock options and restricted stock units outstanding as of the acquisition date.

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at their estimated fair values on the date of acquisition. The total consideration paid, which was used to determine the amount of goodwill resulting from the transaction, also included the fair value of outstanding First Community stock options that were converted into options to purchase common shares of First Busey and cash paid out relating to stock options and restricted stock units not converted. As the total consideration paid for First Community exceeded the net assets acquired, goodwill of $116.0 million was recorded as a result of the acquisition. Goodwill recorded in the transaction, which reflected the synergies expected from the acquisition and the greater revenue opportunities from the Company s broader service capabilities in the Chicagoland area, is not tax deductible, and was assigned to the Banking operating segment.

Table of Contents

First Busey did not incur any expenses related to the acquisition of First Community for the three months ended June 30, 2018. First Busey incurred $0.1 million in pre-tax expenses related to the acquisition of First Community for the six months ended June 30, 2018, primarily for professional and legal fees. First Busey incurred $0.2 million and $0.8 million in pre-tax expenses related to the acquisition of First Community for the three and six months ended June 30, 2017, respectively, primarily for professional and legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

The following table presents the fair value estimates of First Community assets acquired and liabilities assumed as of July 2, 2017 *(dollars in thousands)*:

		As Recorded by First Busey
Assets acquired:		
Cash and cash equivalents	$	60,686
Securities		165,843
Loans held for sale		905
Portfolio loans		1,096,583
Premises and equipment		18,094
OREO		722
Other intangible assets		13,979
Other assets		41,755
Total assets acquired		1,398,567
Liabilities assumed:		
Deposits		1,134,355
Other borrowings		125,751
Other liabilities		11,862
Total liabilities assumed		1,271,968
Net assets acquired	$	126,599
Consideration paid:		
Cash	$	24,557
Cash payout of options and restricted stock units		6,182
Common stock		211,120
Fair value of stock options assumed		722
Total consideration paid		242,581
Goodwill	$	115,982

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *310-20, Receivables-Nonrefundable Fees and Other Costs*, and were subsequently considered as part of the Company s determination of the adequacy of the allowance for loan losses. Purchased credit-impaired (PCI) loans were accounted for under *ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of the acquisition date, the aggregate principal outstanding and aggregate fair value of the acquired performing loans, including loans held for sale, totaled $1.1 billion. The difference between the aggregate principal balance outstanding and aggregate fair value of $14.4 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $17.9 million and the aggregate fair value of PCI loans totaled $12.5 million, which became such loans new carrying value. At June 30, 2018, PCI loans related to this transaction with a carrying value of $3.8 million were outstanding, with the decrease relating to collections and a loan sale.

Table of Contents

For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.6 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method; however, $0.2 million of the accretable yield was accelerated in 2017 as a result of collections of PCI loan balances.

The following table provides the unaudited pro forma information for the results of operations for the three and six months ended June 30, 2017, as if the acquisition had occurred January 1, 2017. The pro forma results combine the historical results of First Community into the Company s unaudited Consolidated Statements of Income, including the impact of purchase accounting adjustments for loan discount accretion, intangible assets amortization and deposit accretion, net of taxes. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2017. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Only the merger related expenses that have been recognized are included in net income in the table below *(dollars in thousands, except per share amount)*:

	Pro Forma	
	Three Months Ended June 30, 2017	**Six Months Ended June 30, 2017**
Total revenues (net interest income plus non-interest income)	$ 78,122	$ 152,227
Net income	21,462	40,149
Diluted earnings per common share	0.47	0.87

Mid Illinois Bancorp, Inc.

On October 1, 2017, the Company completed its acquisition of Mid Illinois Bancorp, Inc. (Mid Illinois) and its wholly owned bank subsidiary, South Side Trust & Savings Bank of Peoria (South Side Bank), under which each share of Mid Illinois common stock issued and outstanding as of the effective time was converted into, at the election of the stockholder the right to receive, either (i) $227.94 in cash, (ii) 7.5149 shares of the Company s common stock, or (iii) mixed consideration of $68.38 in cash and 5.2604 shares of the Company s common stock, subject to certain adjustments and proration. In the aggregate, total consideration consisted of 70% stock and 30% cash. Mid Illinois stockholders electing the cash consideration option were subject to proration under the terms of the merger agreement with Mid Illinois and ultimately received a mixture of cash and stock consideration. First Busey operated South Side Bank as a separate bank subsidiary from October 2, 2017 until March 16, 2018, when it was merged with and into Busey Bank. At that time, South Side Bank s banking centers became banking centers of Busey Bank.

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at their estimated fair values on the date of acquisition. An adjustment to the fair value was recorded in the first quarter of 2018 as additional information became available. Fair values are subject to refinement for up to one year after the closing date of October 1, 2017; however, the Company does not expect any further adjustments will be necessary. As the total consideration paid for Mid Illinois exceeded the net assets acquired, goodwill of $48.9 million was recorded as a result of the acquisition. Goodwill recorded in the transaction, which reflected the synergies expected from the acquisition and expansion within the greater Peoria area, is not tax deductible, and was assigned to the Banking operating segment.

First Busey incurred $0.2 million and $3.1 million of pre-tax expenses related to the acquisition of Mid Illinois for the three and six months ended June 30, 2018, respectively, primarily for salaries, wages and employee benefits expense, professional and legal fees and data conversion

expenses, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements. First Busey incurred $0.1 million and $0.2 million in pre-tax expenses related to the acquisition of Mid Illinois for the three and six months ended June 30, 2017, respectively, primarily for legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

Table of Contents

The following table presents the fair value estimates of Mid Illinois assets acquired and liabilities assumed as of October 1, 2017 *(dollars in thousands):*

		As Recorded by First Busey
Assets acquired:		
Cash and cash equivalents	$	39,443
Securities		208,003
Loans held for sale		5,031
Portfolio loans		356,651
Premises and equipment		16,551
Other intangible assets		11,531
Other assets		29,564
Total assets acquired		666,774
Liabilities assumed:		
Deposits		505,917
Other borrowings		61,040
Other liabilities		10,497
Total liabilities assumed		577,454
Net assets acquired	$	89,320
Consideration paid:		
Cash	$	40,507
Common stock		97,702
Total consideration paid		138,209
Goodwill	$	48,889

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under FASB *ASC 310-20, Receivables-Nonrefundable Fees and Other Costs*, and were subsequently considered as part of the Company s determination of the adequacy of the allowance for loan losses. PCI loans were accounted for under *ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of the acquisition date, the aggregate principal outstanding was $362.4 million and aggregate fair value of the acquired performing loans was $357.0 million, including loans held for sale. The difference between the aggregate principal balance outstanding and aggregate fair value of $5.4 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $7.6 million and the aggregate fair value of PCI loans totaled $4.7 million, which became such loans new carrying value. At June 30, 2018, PCI loans related to this transaction with a carrying value of $0.1 million were outstanding, with the decrease primarily relating to loan sales. For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.1 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method; however, this was accelerated in 2018 due to loan sales of PCI loans.

The Company had $4.5 million of banking center real estate in the Peoria market at June 30, 2018 that was no longer in use and was classified as bank properties held for sale, which was recorded at the lower of amortized cost or estimated fair value less estimated cost to sell. The Company recognized an impairment charge of $0.8 million related to these properties, resulting in a net amount of bank properties held for sale of $3.7 million at June 30, 2018 which is included in premises and equipment, net.

Table of Contents

Note 3: Securities

The table below provides the amortized cost, unrealized gains and losses and fair values of securities are summarized by major category *(dollars in thousands)*:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018:				
Available for sale				
U.S. Treasury securities(1)	$ 61,035	$	$ (1,077)	$ 59,958
Obligations of U.S. government corporations and agencies	96,454	4	(1,961)	94,497
Obligations of states and political subdivisions	249,092	441	(2,879)	246,654
Residential mortgage-backed securities	363,309	233	(9,487)	354,055
Corporate debt securities	116,645	45	(516)	116,174
Total	$ 886,535	$ 723	$ (15,920)	$ 871,338
Held to maturity				
Obligations of states and political subdivisions	$ 38,870	$ 60	$ (164)	$ 38,766
Commercial mortgage-backed securities	60,282		(1,562)	58,720
Residential mortgage-backed securities	408,628	74	(9,473)	399,229
Total	$ 507,780	$ 134	$ (11,199)	$ 496,715

(1)The gross unrealized gains on U.S. Treasury securities was less than one thousand dollars.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017:				
Available for sale				
U.S. Treasury securities	$ 60,829	$ 7	$ (488)	$ 60,348
Obligations of U.S. government corporations and agencies	104,807	1	(1,143)	103,665
Obligations of states and political subdivisions	280,216	1,160	(1,177)	280,199
Residential mortgage-backed securities	400,661	612	(3,837)	397,436
Corporate debt securities	30,946	132	(44)	31,034
Total	$ 877,459	1,912	(6,689)	872,682
Held to maturity				
Obligations of states and political subdivisions	$ 41,300	$ 228	$ (64)	$ 41,464
Commercial mortgage-backed securities	60,474	41	(297)	60,218
Residential mortgage-backed securities	341,776	25	(2,431)	339,370
Total	$ 443,550	$ 294	$ (2,792)	$ 441,052

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. Securities are classified as held to maturity when First Busey has the ability and management has the intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts.

Table of Contents

The Company held equity securities, consisting of money market mutual funds, with fair values of $5.7 million at June 30, 2018. The Company held equity securities, consisting of common stock and money market mutual funds, with fair values of $0.8 million and $4.6 million, respectively, at December 31, 2017. The Company recorded $0.1 million of unrealized losses recorded in non-interest income in the accompanying unaudited Consolidated Financial Statements during the six months ended June 30, 2018, related to recording the common stock at fair value. The common stock was sold in the second quarter of 2018 and realized security gains recorded during the three and six months ended June 30, 2018 was $0.2 million.

The amortized cost and fair value of debt securities as of June 30, 2018, by contractual maturity or pre-refunded date, are shown below. Mortgages underlying mortgage-backed securities may be called or prepaid; therefore, actual maturities could differ from the contractual maturities. All mortgage-backed securities were issued by U.S. government agencies and corporations *(dollars in thousands)*.

	Available for sale		**Held to maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 77,340	$ 77,103	$ 8,505	$ 8,484
Due after one year through five years	324,776	320,789	58,742	57,794
Due after five years through ten years	164,557	162,163	30,266	29,571
Due after ten years	319,862	311,283	410,267	400,866
Total	$ 886,535	$ 871,338	$ 507,780	$ 496,715

Realized gains and losses related to sales of available for sale securities are summarized as follows (*dollars in thousands*):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2018	**2017**	**2018**	**2017**
Gross security gains	$	$ 1	$	$ 969
Gross security (losses)		(5)		(116)
Security (losses) gains, net(1)	$	$ (4)	$	$ 853

(1)Security gains, net reported on the Consolidated Statements of Income in 2018 relate to the sale of equity securities as noted above.

The tax provision for the net realized gains and losses was insignificant for the three months ended June 30, 2017. The tax provision for the net realized gains and losses was $0.3 million for the six months ended June 30, 2017.

Investment securities with carrying amounts of $593.5 million and $638.2 million on June 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (*dollars in thousands*):

Table of Contents

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018:						
Available for sale						
U.S. Treasury securities	$ 59,885	$ (1,077)	$	$	$ 59,885	$ (1,077)
Obligations of U.S. government corporations and agencies	69,054	(1,284)	24,593	(677)	93,647	(1,961)
Obligations of states and political subdivisions	195,490	(2,668)	14,978	(211)	210,468	(2,879)
Residential mortgage-backed securities	246,040	(5,288)	84,148	(4,199)	330,188	(9,487)
Corporate debt securities	84,425	(516)			84,425	(516)
Total temporarily impaired securities	$ 654,894	$ (10,833)	$ 123,719	$ (5,087)	$ 778,613	$ (15,920)
Held to maturity						
Obligations of states and political subdivisions	$ 27,304	$ (164)	$	$	$ 27,304	$ (164)
Commercial mortgage-backed securities	56,453	(1,398)	2,267	(164)	58,720	(1,562)
Residential mortgage-backed securities	359,073	(9,473)			359,073	(9,473)
Total temporarily impaired securities	$ 442,830	$ (11,035)	$ 2,267	$ (164)	$ 445,097	$ (11,199)

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017:						
Available for sale						
U.S. Treasury securities	$ 59,773	$ (488)	$	$	$ 59,773	$ (488)
Obligations of U.S. government corporations and agencies	78,610	(636)	24,831	(507)	103,441	(1,143)
Obligations of states and political subdivisions	162,213	(1,027)	12,045	(150)	174,258	(1,177)
Residential mortgage-backed securities	223,261	(1,428)	90,930	(2,409)	314,191	(3,837)
Corporate debt securities	16,176	(44)			16,176	(44)
Total temporarily impaired securities	$ 540,033	$ (3,623)	$ 127,806	$ (3,066)	$ 667,839	$ (6,689)
Held to maturity						
Obligations of states and political subdivisions	$ 17,939	$ (64)	$	$	$ 17,939	$ (64)
Commercial mortgage-backed securities	44,514	(214)	2,374	(83)	46,888	(297)
Residential mortgage-backed securities	277,826	(2,431)			277,826	(2,431)
Total temporarily impaired securities	$ 340,279	$ (2,709)	$ 2,374	$ (83)	$ 342,653	$ (2,792)

Table of Contents

Securities are periodically evaluated for other-than-temporary impairment (OTTI). The total number of securities in the investment portfolio in an unrealized loss position as of June 30, 2018 was 834, and represented a loss of 2.17% of the aggregate carrying value. As of June 30, 2018, the Company does not intend to sell such 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 OTTI at June 30, 2018.

The Company had available for sale obligations of state and political subdivisions with a fair value of $246.6 million and $280.2 million as of June 30, 2018 and December 31, 2017, respectively. In addition, the Company had held to maturity obligations of state and political subdivisions with a fair value of $38.8 million and $41.5 million as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, the fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $239.2 million of general obligation bonds and $46.2 million of revenue bonds issued by 405 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 35 states, including eight states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 21 states, including three states where the aggregate fair value exceeded $5.0 million.

As of December 31, 2017, the fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $271.7 million of general obligation bonds and $50.0 million of revenue bonds issued by 446 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 36 states (including the District of Columbia), including nine states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 22 states, including three states where the aggregate fair value exceeded $5.0 million.

The amortized cost and fair values of the Company s portfolio of general obligation bonds are summarized in the following tables by the issuers state *(dollars in thousands)*:

June 30, 2018:

U.S. State	**Number of Issuers**	**Amortized Cost**	**Fair Value**	**Average Exposure Per Issuer (Fair Value)**
Illinois	89	$ 88,096	$ 87,384	$ 982
Wisconsin	29	19,713	19,511	673
Texas	45	25,639	25,287	562
Michigan	27	14,243	14,316	530
Ohio	20	15,068	14,969	748
Pennsylvania	18	10,995	10,970	609
New Jersey	14	6,319	6,277	450
Missouri	9	5,582	5,533	615
Other	94	55,629	54,924	584
Total general obligations bonds	345	$ 241,284	$ 239,171	$ 693

December 31, 2017:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Illinois	97	$ 95,340	$ 95,344	$ 983
Wisconsin	41	27,852	27,809	678
Texas	46	27,485	27,514	598
Michigan	34	19,641	19,849	584
Ohio	20	15,172	15,162	758
Pennsylvania	18	12,189	12,174	676
New Jersey	15	7,755	7,760	517
Missouri	10	5,759	5,747	575
Minnesota	8	5,657	5,667	708
Other	92	54,649	54,633	594
Total general obligations bonds	381	$ 271,499	$ 271,659	$ 713

Table of Contents

The general obligation bonds are diversified across many issuers, with $3.9 million and $4.0 million being the largest exposure to a single issuer at June 30, 2018 and December 31, 2017, respectively. Accordingly, as of June 30, 2018 and December 31, 2017, the Company did not hold general obligation bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company s stockholders equity. Of the general obligation bonds in the Company s portfolio, 99.3% had been rated by at least one nationally recognized rating organization and 0.7% were unrated, based on the aggregate fair value as of June 30, 2018 and December 31, 2017.

The amortized cost and fair values of the Company s portfolio of revenue bonds are summarized in the following tables by the issuers state *(dollars in thousands)*:

June 30, 2018:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Indiana	14	$ 11,953	$ 11,894	$ 850
Missouri	5	7,048	6,987	1,397
Illinois	6	5,622	5,561	927
Other	35	22,055	21,807	623
Total revenue bonds	60	$ 46,678	$ 46,249	$ 771

December 31, 2017:

U.S. State	Number of Issuers	Amortized Cost	Fair Value	Average Exposure Per Issuer (Fair Value)
Indiana	14	$ 12,001	$ 12,054	$ 861
Missouri	6	7,376	7,336	1,223
Illinois	7	6,477	6,456	922
Other	38	24,163	24,158	636
Total revenue bonds	65	$ 50,017	$ 50,004	$ 769

The revenue bonds are diversified across many issuers and revenue sources with $3.5 million and $3.6 million being the largest exposure to a single issuer at each of June 30, 2018 and December 31, 2017, respectively. Accordingly, as of June 30, 2018 and December 31, 2017, the Company did not hold revenue bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company s stockholders equity. Of the revenue bonds in the Company s portfolio, 100.0% had been rated by at least one nationally recognized rating organization as of June 30, 2018. Of the revenue bonds in the Company s portfolio, 99.4% had been rated by at least one nationally recognized rating organization and 0.6% were unrated, based on the fair value as of December 31, 2017. Some of the primary types of revenue bonds held in the Company s portfolio include: primary education or government building lease rentals secured by ad valorem taxes, utility systems secured by utility system net revenues, housing authorities secured by mortgage loans or principal receipts on mortgage loans, secondary education secured by student fees/tuitions, and pooled issuances (i.e. bond bank) consisting of multiple underlying municipal obligors.

At June 30, 2018, all of the Company s obligations of state and political subdivision securities are owned by its subsidiary bank, which has adopted First Busey s investment policy requiring that state and political subdivision securities purchased be investment grade. Such investment policy also limits the amount of rated state and political subdivision securities to an aggregate 100% of the subsidiary bank s total capital (as defined by federal regulations) at the time of purchase and an aggregate 15% of total capital for unrated state and political subdivision securities issued by municipalities having taxing authority or located in counties/micropolitan statistical areas/metropolitan statistical areas in which an office is located.

All securities in First Busey s obligations of state and political subdivision securities portfolio are subject to periodic review. Factors that may be considered as part of monitoring of state and political subdivision securities include credit rating changes by nationally recognized rating organizations, market valuations, third-party municipal credit analysis, which may include indicative information regarding the issuer s capacity to pay, market and economic data and such other factors as are available and relevant to the security or the issuer such as its budgetary position and sources, strength and stability of taxes and/or other revenue.

Table of Contents

Note 4: Loans held for sale

Loans held for sale totaled $34.0 million and $94.8 million at June 30, 2018 and December 31, 2017, respectively. The amount of loans held for sale decreased from December 31, 2017, due to lower origination volumes and the timing of sales. Loans held for sale generate net interest income until loans are delivered to investors, at which point mortgage revenue will be recognized.

The following is a summary of mortgage revenue *(dollars in thousands)*:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Premiums received on sales of mortgage loans, including fair value adjustments	$ 2,878	$ 10,065	$ 6,985	$ 22,216
Less direct origination costs	(1,810)	(7,648)	(4,829)	(18,035)
Less provisions to liability for loans sold	(47)	(150)	(109)	(175)
Mortgage servicing revenues	552	503	1,169	898
Mortgage revenue	$ 1,573	$ 2,770	$ 3,216	$ 4,904

Note 5: Portfolio loans

The distribution of portfolio loans at June 30, 2018 and December 31, 2017 is as follows *(dollars in thousands)*:

	June 30, 2018	December 31, 2017
Commercial	$ 1,446,061	$ 1,414,631
Commercial real estate	2,355,225	2,354,684
Real estate construction	274,967	261,506
Retail real estate	1,449,476	1,460,801
Retail other	29,558	27,878
Portfolio loans	$ 5,555,287	$ 5,519,500
Less allowance for loan losses	53,305	53,582
Portfolio loans, net	$ 5,501,982	$ 5,465,918

Net deferred loan origination costs included in the table above were $5.3 million as of June 30, 2018 and $4.1 million as of December 31, 2017. Net accretable purchase accounting adjustments included in the table above reduced loans by $18.0 million as of June 30, 2018 and $23.6 million as of December 31, 2017.

The Company believes that making sound loans is 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 geographic areas within 125 miles of its lending offices. Loans might be originated outside of these areas, but such loans are generally residential mortgage loans originated for sale in the secondary market or are loans to existing customers of the Bank. The Company attempts to utilize government-assisted lending programs, such as the Small Business Administration and United States Department of Agriculture lending programs, when prudent. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid primarily from cash flows of the borrowers, or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company s lending policies and procedures on a routine basis. The policies for legacy First Community and South Side Bank loans are similar in nature to Busey Bank s policies and the Company is migrating such loan production towards the Busey Bank policies. Management routinely (at least quarterly) reviews the Company s allowance

for loan losses in conjunction with 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. Additional significant underwriting factors beyond location, duration, a sound and profitable cash flow basis and the borrower s character include the quality of the borrower s financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

At no time is a borrower s total borrowing relationship permitted to exceed the Company s regulatory lending limit and the Company generally limits such relationships to amounts substantially less than the regulatory limit. Loans to related parties, including executive officers and directors of the Company and its subsidiaries, are reviewed for compliance with regulatory guidelines by the Company s board of directors at least annually.

The Company maintains an independent loan review department that reviews the loans for compliance with the Company s loan policy on a periodic basis. In addition, the loan review department 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 activities can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction loans, retail real estate loans, and retail other loans. A description of each of the lending areas can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2017. The significant majority of the Company s portfolio lending activity occurs in its Illinois and Missouri markets, with the remainder in the Indiana and Florida markets.

The Company utilizes a loan grading scale to assign a risk grade to all of its loans. A description of the general characteristics of each grade is as follows:

- *Pass-* This category includes loans that are all considered strong credits, ranging from investment or near investment grade, to loans made to borrowers who exhibit credit fundamentals that exceed industry standards and loan policy guidelines and loans that exhibit acceptable credit fundamentals.

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

- *Special mention-* This category is for Other Assets Specially Mentioned loans that have potential weaknesses, which may, if not checked or corrected, weaken the asset or inadequately protect the Company s credit position at some future date.

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

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

All loans are graded at their inception. Most commercial lending relationships that are $1.0 million or less are processed through an expedited underwriting process. If the credit receives a pass grade, it is aggregated into a homogenous pool of either: $0.35 million or less, or $0.35 million to $1.0 million. These pools are monitored on a regular basis and reviewed annually. Most commercial loans greater than $1.0 million are included in a portfolio review at least annually. Commercial loans greater than $0.35 million that have a grading of special mention or worse are reviewed on a quarterly basis. Interim reviews may take place if circumstances of the borrower warrant a more timely review.

Table of Contents

Portfolio loans in the highest grades, represented by the pass and watch categories, totaled $5.3 billion at June 30, 2018 and December 31, 2017. Portfolio loans in the lowest grades, represented by the special mention, substandard and doubtful categories, totaled $237.2 million at June 30, 2018, compared to $193.8 million at December 31, 2017.

The following table is a summary of risk grades segregated by category of portfolio loans (excluding accretable purchase accounting adjustments and clearings) *(dollars in thousands)*:

	June 30, 2018				
	Pass	Watch	Special Mention	Substandard	Doubtful
Commercial	$ 1,192,414	$ 137,423	$ 43,455	$ 65,337	$ 9,135
Commercial real estate	2,127,522	147,242	36,408	46,430	8,597
Real estate construction	252,778	15,644	3,846	3,257	23
Retail real estate	1,417,838	8,401	7,933	5,316	7,385
Retail other	29,787		7	27	75
Total	$ 5,020,339	$ 308,710	$ 91,649	$ 120,367	$ 25,215

	December 31, 2017				
	Pass	Watch	Special Mention	Substandard	Doubtful
Commercial	$ 1,175,421	$ 141,776	$ 51,366	$ 43,933	$ 5,285
Commercial real estate	2,169,420	130,056	21,151	36,482	11,997
Real estate construction	212,952	41,292	3,880	3,071	608
Retail real estate	1,436,156	6,883	5,162	4,135	6,714
Retail other	28,300	9		7	20
Total	$ 5,022,249	$ 320,016	$ 81,559	$ 87,628	$ 24,624

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

A summary of portfolio loans that are past due and still accruing or on a non-accrual status is as follows *(dollars in thousands)*:

	June 30, 2018			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
Commercial	$ 122	$	$	$ 9,135
Commercial real estate	1,504	349	750	8,597
Real estate construction	599	123		23
Retail real estate	6,093	1,177	390	7,385

Retail other		47		3		2		75
Total	$	8,365	$	1,652	$	1,142	$	25,215

Table of Contents

	December 31, 2017			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
Commercial	$ 1,615	$ 323	$ 1,808	$ 5,285
Commercial real estate	1,856	2,737		11,997
Real estate construction				608
Retail real estate	4,840	1,355	933	6,714
Retail other	166	5		20
Total	$ 8,477	$ 4,420	$ 2,741	$ 24,624

A loan is classified as impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled principal and interest payments when due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Loans graded substandard or doubtful and loans classified as a troubled debt restructuring (TDR) are reviewed by the Company for potential impairment.

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

The gross interest income that would have been recorded in the three and six months ended June 30, 2018 if impaired loans had been current in accordance with their original terms was $0.3 million and $0.7 million, respectively. The gross interest income that would have been recorded in the three and six months ended June 30, 2017 if impaired loans had been current in accordance with their original terms was $0.2 million and $0.5 million, respectively. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three and six months ended June 30, 2018 and 2017.

The Company s loan portfolio includes certain loans that have been modified in a TDR, where concessions have been granted to borrowers who have experienced financial difficulties. The Company will restructure a loan for its customer after evaluating whether the borrower is able to meet the terms of the loan over the long term, though unable to meet the terms of the loan in the near term due to individual circumstances.

The Company considers the customer s past performance, previous and current credit history, the individual circumstances surrounding the customer s current difficulties and the customer s plan to meet the terms of the loan in the future prior to restructuring the terms of the loan. Generally, restructurings consist of short-term interest rate relief, short-term principal payment relief, short-term principal and interest payment relief or forbearance (debt forgiveness). Once a restructured loan exceeds 90 days past due or is placed on non-accrual status, it is classified as non-performing. A summary of restructured loans is as follows *(dollars in thousands)*:

	June 30, 2018	December 31, 2017

In compliance with modified terms	$	9,096	$	9,873
30 89 days past due		22		108
Included in non-performing loans		1,734		1,919
Total	$	10,852	$	11,900

Table of Contents

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

Performing loans classified as a TDR during the three and six months ended June 30, 2018 included one retail real estate modification for short-term interest rate relief, with a recorded investment of $0.1 million. Performing loans classified as TDRs during the three and six months ended June 30, 2017 included one commercial modification for short-term principal payment relief, with a recorded investment of $1.6 million and one retail real estate modification for short-term interest rate relief, with a recorded investment of $0.3 million.

The gross interest income that would have been recorded in the three and six months ended June 30, 2018 and 2017 if performing TDRs had been performing in accordance with their original terms compared with their modified terms was insignificant.

There were no TDRs that were entered into during the last twelve months that were subsequently classified as non-performing and had payment defaults (a default occurs when a loan is 90 days or more past due or transferred to non-accrual) during the three and six months ended June 30, 2018. There were no TDRs that were entered into during the prior twelve months that were subsequently classified as non-performing and had payment defaults during the three and six months ended June 30, 2017.

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

	June 30, 2018					
	Unpaid Contractual Principal Balance	**Recorded Investment with No Allowance**	**Recorded Investment with Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial	$ 11,787	$ 6,932	$ 2,343	$ 9,275	$ 1,272	$ 9,386
Commercial real estate	16,614	12,029	3,494	15,523	1,246	17,423
Real estate construction	440	415		415		836
Retail real estate	17,029	14,171	25	14,196	25	14,244
Retail other	162	78		78		46
Total	$ 46,032	$ 33,625	$ 5,862	$ 39,487	$ 2,543	$ 41,935

	December 31, 2017					
	Unpaid Contractual Principal Balance	**Recorded Investment with No Allowance**	**Recorded Investment with Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial	$ 10,604	$ 7,192	$ 191	$ 7,383	$ 138	$ 10,184
Commercial real estate	22,218	16,472	1,964	18,436	704	15,195

Real estate construction	1,040	1,016		1,016		692
Retail real estate	18,517	14,957	25	14,982	25	13,009
Retail other	40	20		20		44
Total	$ 52,419	$ 39,657	$ 2,180	$ 41,837	$ 867	$ 39,124

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

Table of Contents

Allowance for Loan Losses

The allowance for loan losses represents an estimate of the amount of probable losses believed to be inherent in the Company s loan portfolio at the Consolidated Balance Sheet date. The allowance for loan losses is calculated geographically, by class of loans. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, the Company believes the allowance methodology is consistent with prior periods and the balance was adequate to cover the estimated losses in the Company s loan portfolio at June 30, 2018 and December 31, 2017.

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

The Company s component for adversely graded loans attempts to quantify the additional risk of loss inherent in the special mention and substandard portfolios. The substandard portfolio has an additional allocation of 3.0% placed on such loans, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. As of June 30, 2018, the Company believed this reserve remained adequate. Special mention loans have an additional allocation of 1.0% placed on such loans, which is an estimate of the additional loss inherent in these loan grades. As of June 30, 2018, the Company believed this reserve remained adequate.

The specific portion of the Company s allowance relates to loans that are impaired, which includes non-performing loans, TDRs and other loans determined to be impaired. Impaired loans are excluded from the determination of the general allowance for non-impaired loans and are allocated specific reserves as discussed above. Impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using a combination of observable inputs, including recent appraisals discounted for collateral specific changes and current market conditions, and unobservable inputs based on customized discounting criteria.

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

The Company holds acquired loans from business combinations with uncollected principal balances. These loans are carried net of a fair value adjustment for credit risk and interest rates and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. As the acquired loans renew, it is generally necessary to establish an allowance, which represents an amount that, in management s opinion, will be adequate to absorb probable credit losses in such loans. The balance of all acquired loans as of June 30, 2018 totaled approximately $1.5 billion.

The following table details activity in the allowance for loan losses. Allocation of a portion of the allowance to one category does not preclude its availability to absorb losses in other categories *(dollars in thousands)*:

	As of and for the Three Months Ended June 30, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 17,577	$ 22,090	$ 2,799	$ 9,836	$ 347	$ 52,649
Provision for loan loss	1,720	909	35	(548)	142	2,258
Charged-off	(1,916)	(110)		(412)	(115)	(2,553)
Recoveries	205	158	81	417	90	951
Ending Balance	$ 17,586	$ 23,047	$ 2,915	$ 9,293	$ 464	$ 53,305

Table of Contents

	As of and for the Six Months Ended June 30, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 14,779	$ 21,813	$ 2,861	$ 13,783	$ 346	$ 53,582
Provision for loan loss	4,723	2,445	37	(4,210)	271	3,266
Charged-off	(2,697)	(1,425)	(97)	(942)	(322)	(5,483)
Recoveries	781	214	114	662	169	1,940
Ending Balance	$ 17,586	$ 23,047	$ 2,915	$ 9,293	$ 464	$ 53,305

	As of and for the Three Months Ended June 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,260	$ 19,848	$ 2,021	$ 12,978	$ 335	$ 48,442
Provision for loan losses	(1,572)	1,279	(197)	1,020	(30)	500
Charged-off	(78)	(1,101)	(48)	(641)	(93)	(1,961)
Recoveries	1,318	98	385	324	95	2,220
Ending balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201

	As of and for the Six Months Ended June 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,303	$ 20,623	$ 1,870	$ 11,648	$ 351	$ 47,795
Provision for loan losses	(2,221)	1,059	(63)	2,240	(15)	1,000
Charged-off	(181)	(1,689)	(48)	(1,092)	(183)	(3,193)
Recoveries	2,027	131	402	885	154	3,599
Ending balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201

The following table presents the allowance for loan losses and recorded investments in portfolio loans by category *(dollars in thousands)*:

	As of June 30, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individually evaluated for impairment	$ 1,272	$ 1,246	$	$ 25	$	$ 2,543
Loans collectively evaluated for impairment	16,314	21,801	2,915	9,268	464	50,762
Ending balance	$ 17,586	$ 23,047	$ 2,915	$ 9,293	$ 464	$ 53,305
Loans:						
Loans individually evaluated for impairment	$ 8,846	$ 13,173	$ 415	$ 12,926	$ 78	$ 35,438
Loans collectively evaluated for impairment	1,436,786	2,339,702	274,552	1,435,280	29,480	5,515,800
PCI loans evaluated for impairment	429	2,350		1,270		4,049
Ending balance	$ 1,446,061	$ 2,355,225	$ 274,967	$ 1,449,476	$ 29,558	$ 5,555,287

Table of Contents

	As of December 31, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individually evaluated for impairment	$ 138	$ 704	$	$ 25	$	$ 867
Loans collectively evaluated for impairment	14,641	21,109	2,861	13,758	346	52,715
Ending balance	$ 14,779	$ 21,813	$ 2,861	$ 13,783	$ 346	$ 53,582
Loans:						
Loans individually evaluated for impairment	$ 6,572	$ 11,491	$ 435	$ 12,673	$ 20	$ 31,191
Loans collectively evaluated for impairment	1,407,248	2,336,248	260,490	1,445,819	27,858	5,477,663
PCI loans evaluated for impairment	811	6,945	581	2,309		10,646
Ending balance	$ 1,414,631	$ 2,354,684	$ 261,506	$ 1,460,801	$ 27,878	$ 5,519,500

Note 6: OREO

OREO represents properties acquired through foreclosure or other proceedings in settlement of loans and is included in other assets in the accompanying Consolidated Balance Sheets. OREO is held for sale and is recorded at the date of foreclosure at the fair value of the properties less estimated costs of disposal, which establishes a new cost basis. Any adjustment to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Properties are evaluated regularly to ensure each recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount due to subsequent declines in fair value less estimated costs to dispose are recorded as necessary. Revenue, expense, gains and losses from the operations of foreclosed assets are included in operations. At June 30, 2018, the Company held $3.3 million in commercial OREO, $0.4 million in residential OREO and an insignificant amount of other repossessed assets. At December 31, 2017, the Company held $1.2 million in commercial OREO, $0.1 million in residential OREO and an insignificant amount of other repossessed assets. At June 30, 2018 the Company had $1.7 million of residential real estate in the process of foreclosure.

The following table summarizes activity related to OREO *(dollars in thousands)*:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Beginning balance	$ 1,283	$ 2,518
Additions, transfers from loans	3,125	1,417
Additions, fair value from First Community acquisition		722
Additions, fair value from Mid Illinois acquisition		60
Proceeds from sales of OREO	(722)	(5,024)
Gain on sales of OREO	26	1,632
Valuation allowance for OREO	(18)	(42)
Ending balance	$ 3,694	$ 1,283

Note 7: Deposits

The composition of deposits is as follows *(dollars in thousands)*:

	June 30, 2018	December 31, 2017
Demand deposits, noninterest-bearing	$ 1,496,671	$ 1,597,421
Interest-bearing transaction deposits	1,238,876	1,166,170
Saving deposits and money market deposits	1,953,859	2,026,212
Time deposits	1,474,506	1,336,162
Total	$ 6,163,912	$ 6,125,965

Table of Contents

The Company held brokered interest-bearing transaction deposits of $5.0 million at June 30, 2018 and December 31, 2017. The Company held brokered saving deposits and money market deposits of $51.0 million and $75.1 million at June 30, 2018 and December 31, 2017, respectively.

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $620.1 million and $578.9 million at June 30, 2018 and December 31, 2017, respectively. The aggregate amount of time deposits with a minimum denomination that meets or exceeds the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 was approximately $217.7 million and $197.9 million at June 30, 2018 and December 31, 2017, respectively. The Company held brokered time deposits of $311.8 million and $247.7 million at June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018, the scheduled maturities of time deposits are as follows *(dollars in thousands)*:

July 1, 2018	June 30, 2019	$	1,062,338
July 1, 2019	June 30, 2020		238,719
July 1, 2020	June 30, 2021		63,516
July 1, 2021	June 30, 2022		65,582
July 1, 2022	June 30, 2023		44,289
Thereafter			62
		$	1,474,506

Note 8: Borrowings

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature daily. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company s safekeeping agent. The Company may be required to provide additional collateral based on fluctuations in the fair value of the underlying securities.

Short-term borrowings include FHLB advances which mature in less than one year from date of origination.

On April 30, 2018, the Company entered into a third amendment to extend the maturity of this revolving loan facility from April 30, 2018 to April 30, 2019, to decrease the maximum principal amount from $40.0 million to $20.0 million, and to amend and restate the annual interest rate. The loan also bears a non-usage fee calculated based on the average daily principal balance of the loan outstanding during the prior fiscal quarter. The Company had no outstanding amount on June 30, 2018 or December 31, 2017.

The following table sets forth the distribution of securities sold under agreements to repurchase and short-term borrowings and weighted average interest rates *(dollars in thousands)*:

	June 30, 2018	December 31, 2017
Securities sold under agreements to repurchase		
Balance at end of period	$ 240,109	$ 304,566
Weighted average interest rate at end of period	0.69%	0.57%
Maximum outstanding at any month end in year-to-date period	$ 267,596	$ 304,566
Average daily balance for the year-to-date period	$ 246,100	$ 213,527
Weighted average interest rate during period(1)	0.58%	0.46%
Short-term borrowings, FHLB advances		
Balance at end of period	$ 150,000	$ 220,000
Weighted average interest rate at end of period	2.02%	1.42%
Maximum outstanding at any month end in year-to-date period	$ 225,000	$ 234,600
Average daily balance for the year-to-date period	$ 110,083	$ 84,201
Weighted average interest rate during period(1)	1.63%	1.20%

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

Table of Contents

Long-term debt is summarized as follows *(dollars in thousands)*:

	June 30, 2018	December 31, 2017
Notes payable, FHLB, ranging in original maturity from nineteen months to ten years, collateralized by FHLB deposits, residential and commercial real estate loans and FHLB stock.	$ 50,000	$ 50,000

As of June 30, 2018, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 1.60% to 1.87%. The weighted average rate on the long-term advances was 1.71% as of June 30, 2018. As of December 31, 2017, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 1.10% to 1.32%. The weighted average rate on the long-term advances was 1.19% as of December 31, 2017.

On May 25, 2017, the Company issued $40.0 million of 3.75% senior notes that mature on May 25, 2022. The senior notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017. Additionally, on May 25, 2017, the Company issued $60.0 million of fixed-to-floating rate subordinated notes that mature on May 25, 2027. The subordinated notes, which qualify as Tier 2 capital for First Busey, are at an initial rate of 4.75% for five years and thereafter at an annual floating rate equal to three-month LIBOR plus a spread of 2.919%. The subordinated notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017 during the five year fixed-term and thereafter each February 25, May 25, August 25 and November 25 of each year, commencing on August 25, 2022. The subordinated notes have an optional redemption in whole or in part on any interest payment date on or after May 25, 2022. The senior notes and subordinated notes are unsecured obligations of the Company. Unamortized debt issuance costs related to the senior notes and subordinated notes totaled $0.5 million and $0.9 million, respectively, at June 30, 2018. Unamortized debt issuance costs related to the senior notes and subordinated notes totaled $0.6 million and $1.0 million, respectively, at December 31, 2017. The Company used the net proceeds from the offering to finance a portion of the cash consideration for its acquisition of First Community, to redeem a portion of First Community subordinated debentures in July 2017, and to finance a portion of the cash consideration for its acquisition of Mid Illinois in October 2017, with the remaining proceeds used for general corporate purposes.

In relation to the First Community acquisition, the Company assumed $15.3 million in subordinated debt, of which $9.8 million was simultaneously redeemed. The remaining $5.5 million was issued on September 30, 2013, matures on September 30, 2021 and bears interest payable quarterly, at an annual interest rate of 8.625%. Beginning on September 30, 2018, the Company may, at its option, redeem the note at a redemption price equal to the principal amount outstanding plus accrued but unpaid interest. A $0.3 million purchase accounting premium was recorded on the remaining subordinated debt.

Note 9: Junior Subordinated Debt Owed to Unconsolidated Trusts

First Busey maintains statutory trusts for the sole purpose of issuing and servicing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrent with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are instruments that qualify, and are treated by the Company, as Tier 1 regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment. In connection with the Pulaski acquisition in 2016, the Company acquired similar statutory trusts maintained by Pulaski and the fair value adjustment is being accreted over the weighted average

remaining life. The Company had $71.1 million and $71.0 million of junior subordinated debt owed to unconsolidated trusts at June 30, 2018 and December 31, 2017, respectively.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at par value at the stated maturity date or upon redemption. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes.

The Company s obligations under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust s obligations under the trust preferred securities issued by each

Table of Contents

trust. The Company has the right to defer payment of interest on the notes, in which case the distributions on the trust preferred securities will also be deferred, for up to five years, but not beyond the stated maturity date.

Under current banking regulations, bank holding companies are allowed to include qualifying trust preferred securities in their Tier 1 Capital for regulatory capital purposes, subject to a 25% limitation to all core (Tier 1) capital elements, net of goodwill and other intangible assets less any associated deferred tax liability. As of June 30, 2018, 100% of the trust preferred securities qualified as Tier 1 capital under the final rule adopted in March 2005.

The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required 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 capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15.0 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15.0 billion, it is able to maintain its trust preferred proceeds as capital, but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

Note 10: Earnings Per Common Share

Earnings per common share have been computed as follows *(in thousands, except per share data)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income available to common stockholders	$ 24,862	$ 16,479	$ 46,779	$ 31,649
Shares:				
Weighted average common shares outstanding	48,815	38,311	48,796	38,302
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	409	441	407	444
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	49,224	38,752	49,203	38,746
Basic earnings per common share	$ 0.51	$ 0.43	$ 0.96	$ 0.83
Diluted earnings per common share	$ 0.51	$ 0.43	$ 0.95	$ 0.82

Basic earnings per share are computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding, which include deferred stock units that are vested but not delivered.

Diluted earnings per common share are computed using the treasury stock method and reflect the potential dilution that could occur if the Company s outstanding stock options and warrants were exercised and restricted stock units were vested. Stock options, warrants and restricted stock units for which the exercise or the grant price exceeds the average market price over the period have an anti-dilutive effect and are excluded from the calculation. At June 30, 2018, 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents. At June 30, 2017, 10,850 outstanding options, 128,622 restricted stock units and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 11: Share-based Compensation

The Company grants share-based compensation awards to its employees and members of its board of directors as provided for under the Company s 2010 Equity Incentive Plan. In addition, pursuant to the terms of the First Community 2016 Equity Incentive Plan, the Company may grant awards with respect to First Busey common stock to legacy employees and directors of First Community or its subsidiaries. Permissible awards under the plan include, but are not limited to, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock and restricted stock units.

Table of Contents

The Company currently grants share-based compensation in the form of restricted stock units (RSUs) and deferred stock units (DSUs). The Company grants RSUs to members of management periodically throughout the year. Each RSU is equivalent to one share of the Company s common stock. These units have requisite service periods ranging from one to five years. The Company annually grants share-based awards in the form of DSUs, which are RSUs with a deferred settlement date, to its board of directors. Each DSU is equivalent to one share of the Company s common stock. The DSUs vest on the first anniversary of the grant date or on the date of the next Annual Meeting of Stockholders, whichever is earlier. These units generally are subject to the same terms as RSUs under the Company s 2010 Equity Incentive Plan or the First Community 2016 Equity Incentive Plan, except that, following vesting, settlement occurs within 30 days following the earlier of separation from the board or a change in control of the Company. Subsequent to vesting and prior to delivery, these units will continue to earn dividend equivalents. The Company also has outstanding stock options granted prior to 2011 and stock options assumed from acquisitions.

Under the terms of the Company s 2010 Equity Incentive Plan and the First Community 2016 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises and grants of RSUs and DSUs from its inventory of treasury stock. As of June 30, 2018, the Company held 409,177 shares in treasury. On February 3, 2015, First Busey announced that its board of directors approved a repurchase plan under which the Company is authorized 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 originally approved in 2008. During 2015, the Company purchased 333,333 shares under this repurchase plan. At June 30, 2018 the Company had 333,334 shares that may still be purchased under the plan.

The Company s 2010 Equity Incentive Plan is designed to encourage ownership of its common stock by its employees and directors, to provide additional incentive for them to promote the success of the Company s business, and to attract and retain talented personnel. All of the Company s employees and directors, and those of its subsidiaries, are eligible to receive awards under the plan.

A description of the 2010 Equity Incentive Plan, which was amended in 2015, can be found in the Company s Proxy Statement for the 2015 Annual Meeting of Stockholders. A description of the First Community 2016 Equity Incentive Plan can be found in the Proxy Statement of First Community Financial Partners, Inc. for the 2016 Annual Meeting of Stockholders.

Stock Option Plan

A summary of the status of and changes in the Company s stock option awards for the six months ended June 30, 2018 follows:

	Shares		**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**
Outstanding at beginning of year	213,428	$	16.97	
Exercised	(70,817)		14.20	
Forfeited	(12,627)		21.66	
Expired	(2,565)		16.41	
Outstanding at end of period	127,419	$	18.06	4.49
Exercisable at end of period	88,750	$	15.68	2.80

The Company recorded an insignificant amount and $0.1 million in stock option compensation expense for the three and six months ended June 30, 2018, respectively, related to the converted options from First Community. The Company did not record any stock option compensation expense for the three and six months ended June 30, 2017. As of June 30, 2018, the Company had $0.3 million of unrecognized stock option expense. This cost is expected to be recognized over a period of 1.4 years.

Table of Contents

Restricted Stock Unit Plan

A summary of the changes in the Company s stock unit awards for the six months ended June 30, 2018, is as follows:

	Restricted Stock Units		Weighted-Average Grant Date Fair Value	Director Deferred Stock Units		Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	587,763	$	22.68	42,411	$	25.47
Granted						
Dividend equivalents earned	7,657		30.76	1,565		30.76
Vested	(994)		19.70	(19,686)		29.69
Forfeited	(1,494)		26.19			
Non-vested at end of period	592,932	$	22.78	24,290	$	22.39
Outstanding at end of period	592,932	$	22.78	90,337	$	21.10

Recipients earn quarterly dividend equivalents on their respective units which entitle the recipients to additional units. Therefore, dividends earned each quarter compound based upon the updated unit balances. Upon vesting/delivery, shares are expected (though not required) to be issued from treasury.

The Company recognized $0.8 million and $0.6 million of compensation expense related to non-vested RSUs and DSUs for the three months ended June 30, 2018 and 2017, respectively. The Company recognized $1.6 million and $1.1 million of compensation expense related to non-vested RSUs and DSUs for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was $6.8 million of total unrecognized compensation cost related to these non-vested RSUs and DSUs. This cost is expected to be recognized over a period of 3.3 years.

As of June 30, 2018, 888,097 shares remain available for issuance pursuant to the Company s 2010 Equity Incentive Plan, 75,636 shares remain available for issuance pursuant to the Company s Employee Stock Purchase Plan and 318,701 shares remain available for issuance pursuant to the First Community 2016 Equity Incentive Plan.

Note 12: Income Taxes

At June 30, 2018, the Company was not under examination by any tax authority.

Note 13: Outstanding Commitments and Contingent Liabilities

Legal Matters

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

Credit Commitments and Contingencies

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

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

Table of Contents

	June 30, 2018	December 31, 2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,349,676	$ 1,300,294
Standby letters of credit	34,673	37,231

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer s obligation to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions and primarily have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral, which may include accounts receivable, inventory, property and equipment, and income producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of June 30, 2018 and December 31, 2017, no amounts were recorded as liabilities for the Company s potential obligations under these guarantees.

Note 14: Capital

The ability of the Company to pay cash dividends to its stockholders and to service its debt was historically dependent on the receipt of cash dividends from its subsidiaries. Under applicable regulatory requirements, an Illinois state-chartered bank such as Busey Bank may not pay dividends in excess of its net profits. Because Busey Bank had been in a retained earnings deficit position since 2009, it was not able to pay dividends. With prior approval from its regulators, however, an Illinois state-chartered bank in that situation was 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 has distributed funds to the Company, the most recent of which was $40.0 million on October 12, 2017. The Company expects to seek regulatory approval for a final capital distributions from Busey Bank in 2018 and return to cash dividends thereafter.

The Company and Busey Bank are subject to regulatory capital requirements administered by federal and/or state agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulations to ensure capital adequacy require the Company and Busey Bank to maintain minimum dollar amounts and ratios of such to risk weighted assets (as defined in the regulations and set forth in the table below) of total capital, Tier 1 capital and Common Equity Tier 1 capital, and for the bank, Tier 1 capital to average assets. Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, could have a direct material effect on our unaudited Consolidated Financial Statements. The Company, as a financial holding company, is required to be well capitalized in the capital categories shown in the table below. As of June 30, 2018, the Company and Busey Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered well capitalized.

The Dodd-Frank Act established minimum capital levels for bank holding companies on a consolidated basis. The components of Tier 1 capital are restricted to capital instruments that, at the time of signing, were considered to be Tier 1 capital for insured depository institutions. Under this legislation, the Company is able to maintain its trust preferred securities as Tier 1 capital, but it will have to comply with new capital mandates in other respects, and it will not be able to raise Tier 1 capital through the issuance of trust preferred securities in the future.

Table of Contents

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rule required by the Dodd-Frank Act. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than small bank holding companies (generally non-public bank holding companies with consolidated assets of less than $1.0 billion). The Basel III Rule not only increased most of the required minimum regulatory capital ratios, but they also introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer.

The Basel III Rule also expanded the definition of capital as in effect currently by establishing criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that generally qualified as Tier 1 Capital under the old guidelines no longer qualify, or their qualifications will change, as the Basel III Rule is being fully implemented.

The Basel III Rule also permitted banking organizations with less than $15.0 billion in assets to retain, through a one-time election, the past treatment for accumulated other comprehensive income (loss), which did not affect regulatory capital. First Busey and Busey Bank made this election in the first quarter of 2015 to avoid variations in the level of their capital depending on fluctuations in the fair value of their securities portfolio. The Basel III Rule maintained the general structure of the prompt corrective action framework, while incorporating increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a Common Equity Tier 1 capital conservation buffer of 2.5% of risk weighted assets which is in addition to the other minimum risk based capital standards in the rule. Failure to maintain the buffer will result in restrictions on the Company s ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. The capital buffer requirement is being phased-in over three years beginning in 2016.

The June 30, 2018 table below includes the 1.875% increase as of January 1, 2018 in the minimum capital requirement ratios. The capital buffer requirement effectively raises the minimum required Common Equity Tier 1 Capital ratio to 7.0%, the Tier 1 Capital ratio to 8.5%, and the Total Capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. As of June 30, 2018 and December 31, 2017, the Company was in compliance with the current phase of the Basel III Rule and management believes that the Company would meet all capital adequacy requirements under the Basel III Rule on a fully phased-in basis as if such requirements had been in effect *(dollars in thousands)*.

	Actual		**Minimum Capital Requirement with Capital Buffer**		**Minimum To Be Well Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2018:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 865,366	14.42%	$ 592,648	9.875%	$ 600,150	10.00%
Busey Bank	$ 837,823	14.03%	$ 589,537	9.875%	$ 596,999	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 746,561	12.44%	$ 472,618	7.875%	$ 480,120	8.00%
Busey Bank	$ 784,518	13.14%	$ 470,137	7.875%	$ 477,599	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 672,561	11.21%	$ 382,596	6.375%	$ 390,098	6.50%
Busey Bank	$ 784,518	13.14%	$ 380,587	6.375%	$ 388,050	6.50%

Tier 1 Capital (to Average Assets)								
Consolidated	$	746,561	10.13%	$	294,897	4.00%		N/A	N/A
Busey Bank	$	784,518	10.68%	$	293,941	4.00%	$	367,427	5.00%

Table of Contents

	Actual		Minimum Capital Requirement with Capital Buffer		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 837,183	14.15%	$ 547,265	9.25%	$ 591,638	10.00%
Busey Bank	$ 704,807	12.78%	$ 509,978	9.25%	$ 551,327	10.00%
South Side Bank	$ 84,914	22.61%	$ 34,744	9.25%	$ 37,561	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 718,101	12.14%	$ 428,937	7.25%	$ 473,310	8.00%
Busey Bank	$ 651,432	11.82%	$ 399,713	7.25%	$ 441,062	8.00%
South Side Bank	$ 84,707	22.55%	$ 27,232	7.25%	$ 30,049	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 644,633	10.90%	$ 340,192	5.75%	$ 384,565	6.50%
Busey Bank	$ 651,432	11.82%	$ 317,013	5.75%	$ 358,363	6.50%
South Side Bank	$ 84,707	22.55%	$ 21,598	5.75%	$ 24,415	6.50%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 718,101	9.78%	$ 293,588	4.00%	N/A	N/A
Busey Bank	$ 651,432	9.80%	$ 265,847	4.00%	$ 332,309	5.00%
South Side Bank	$ 84,707	12.75%	$ 26,571	4.00%	$ 33,214	5.00%

Note 15: Operating Segments and Related Information

The Company has three reportable operating segments, Banking, Remittance Processing and Wealth Management. The Banking operating segment provides a full range of banking services to individual and corporate customers through its banking center network in Illinois, St. Louis, Missouri metropolitan area, southwest Florida and through its banking center in Indianapolis, Indiana. The Remittance Processing operating segment provides for online bill payments, lockbox and walk-in payments. The Wealth Management operating segment provides a full range of asset management, investment and fiduciary services to individuals, businesses and foundations, tax preparation, philanthropic advisory services and farm and brokerage services.

The Company s three operating segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. The other category consists of the parent company and the elimination of intercompany transactions.

The segment financial information provided below has been derived from information used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

37

Table of Contents

Following is a summary of selected financial information for the Company s operating segments *(dollars in thousands)*:

	Goodwill		Total Assets	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Banking	$ 246,999	$ 248,660	$ 7,719,424	$ 7,809,738
Remittance Processing	8,992	8,992	36,572	34,646
Wealth Management	11,694	11,694	32,103	32,077
Other			(12,555)	(15,821)
Totals	$ 267,685	$ 269,346	$ 7,775,544	$ 7,860,640

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net interest income:				
Banking	$ 62,109	$ 43,365	$ 123,525	$ 85,907
Remittance Processing	16	15	32	29
Wealth Management	100	90	194	146
Other	(1,853)	(1,104)	(3,622)	(1,703)
Total net interest income	$ 60,372	$ 42,366	$ 120,129	$ 84,379
Non-interest income:				
Banking	$ 11,734	$ 10,758	$ 22,631	$ 21,212
Remittance Processing	3,987	3,005	7,770	6,029
Wealth Management	7,808	6,691	16,449	13,708
Other	(727)	(392)	(1,562)	(873)
Total non-interest income	$ 22,802	$ 20,062	$ 45,288	$ 40,076
Non-interest expense:				
Banking	$ 37,855	$ 29,331	$ 79,241	$ 58,621
Remittance Processing	2,624	2,174	5,090	4,286
Wealth Management	4,703	3,980	9,614	7,944
Other	2,123	1,283	4,400	3,536
Total non-interest expense	$ 47,305	$ 36,768	$ 98,345	$ 74,387
Income before income taxes:				
Banking	$ 33,730	$ 24,292	$ 63,649	$ 47,498
Remittance Processing	1,379	847	2,712	1,773
Wealth Management	3,205	2,801	7,029	5,910
Other	(4,703)	(2,780)	(9,584)	(6,113)
Total income before income taxes	$ 33,611	$ 25,160	$ 63,806	$ 49,068
Net income:				
Banking	$ 24,904	$ 15,855	$ 46,749	$ 30,604
Remittance Processing	986	508	1,939	1,062
Wealth Management	2,288	1,675	5,052	3,523
Other	(3,316)	(1,559)	(6,961)	(3,540)
Total net income	$ 24,862	$ 16,479	$ 46,779	$ 31,649

Table of Contents

Note 16: Derivative Financial Instruments

The Company originates and purchases derivative financial instruments, including interest rate lock commitments issued to residential loan customers for loans that will be held for sale, forward sales commitments to sell residential mortgage loans to loan investors, and interest rate swaps. See *Note 17: Fair Value Measurements* for further discussion of the fair value measurement of such derivatives.

Interest Rate Lock Commitments. At June 30, 2018 and December 31, 2017, the Company had issued $89.9 million and $51.7 million, respectively, of unexpired interest rate lock commitments to loan customers. Such interest rate lock commitments that meet the definition of derivative financial instruments under ASC Topic 815, Derivatives and Hedging, are carried at their fair values in other assets or other liabilities in the unaudited Consolidated Financial Statements, with changes in the fair values of the corresponding derivative financial assets or liabilities recorded as either a charge or credit to current earnings during the period in which the changes occurred.

Forward Sales Commitments. At June 30, 2018 and December 31, 2017, the Company had issued $121.7 million and $139.7 million, respectively, of unexpired forward sales commitments to mortgage loan investors. Typically, the Company economically hedges mortgage loans held for sale and interest rate lock commitments issued to its residential loan customers related to loans that will be held for sale by obtaining corresponding best-efforts forward sales commitments with an investor to sell the loans at an agreed-upon price at the time the interest rate locks are issued to the customers. Forward sales commitments that meet the definition of derivative financial instruments under ASC Topic 815, Derivatives and Hedging, are carried at their fair values in other assets or other liabilities in the unaudited Consolidated Financial Statements. While such forward sales commitments generally served as an economic hedge to the mortgage loans held for sale and interest rate lock commitments, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred.

The fair values of derivative assets and liabilities related to interest rate lock commitments and forward sales commitments recorded in the unaudited Consolidated Balance Sheets are summarized as follows *(dollars in thousands):*

	June 30, 2018	December 31, 2017
Fair value recorded in other assets	$ 760	$ 675
Fair value recorded in other liabilities	1,054	2,148

The gross gains and losses on these derivative assets and liabilities recorded in non-interest income and expense in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017 are summarized as follows *(dollars in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross gains	$ 1,023	$ 4,942	$ 1,755	$ 8,807
Gross (losses)	(1,054)	(4,228)	(2,108)	(8,019)
Net gains (losses)	$ (31)	$ 714	$ (353)	$ 788

The impact of the net gains or losses on derivative financial instruments related to interest rate lock commitments issued to residential loan customers for loans that will be held for sale and forward sales commitments to sell residential mortgage loans to loan investors are almost entirely offset by a corresponding change in the fair value of loans held for sale.

Interest Rate Swaps. The Company entered into interest rate swap contracts to manage the interest rate risk exposure associated with specific commercial loan relationships, at the time such loans were originated. The Company offsets each customer derivative with a bank counterparty. With a notional values of $190.6 million and $161.3 million at June 30, 2018 and December 31, 2017, respectively, these contracts support variable rate, commercial loan relationships totaling $95.3 million and $80.7 million, respectively. While these swap derivatives generally worked together as an economic interest rate hedge, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred.

Table of Contents

The fair values of derivative assets and liabilities related to interest rate swaps recorded in the unaudited Consolidated Balance Sheets are summarized as follows *(dollars in thousands):*

	June 30, 2018	December 31, 2017
Fair value recorded in other assets	$ 1,705	$ 262
Fair value recorded in other liabilities	1,705	262

The gross gains and losses on derivative assets and liabilities related to interest rate swaps recorded in non-interest income and expense in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017 are summarized as follows *(dollars in thousands):*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross gains	$ 489	$ 301	$ 1,443	$ 301
Gross (losses)	(489)	(301)	(1,443)	(301)
Net gains (losses)	$	$	$	$

First Busey had $0.3 million in securities pledged to secure its obligation under these contracts at June 30, 2018. First Busey had $2.0 million in cash and $0.4 million in securities pledged to secure its obligation under contracts at December 31, 2017.

Note 17: Fair Value Measurements

The fair value of an asset or liability is the price that would be received by selling that asset or paid in transferring that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. ASC Topic 820, Fair Value Measurement, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

There were no transfers between levels during the quarter ended June 30, 2018.

In general, fair value is based upon quoted market prices, when available. If such quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect, among other things, counterparty credit quality and the company s creditworthiness as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Table of Contents

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing level 2 measurements. The Company obtains fair value measurements from an independent pricing service. The independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed income securities do not trade on a daily basis, the independent pricing service applies available information, focusing on observable market data such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.

The independent pricing service uses model processes, such as the Option Adjusted Spread model, to assess interest rate impact and develop prepayment scenarios. The models and processes take into account market conventions. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

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

Securities Equity Investments. Securities classified as equity investments are reported at fair value utilizing level 1 measurements. For mutual funds and other equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date and have been classified as level 1 in ASC Topic 820.

Loans Held for Sale. Loans held for sale are reported at fair value utilizing level 2 measurements. The fair value of the mortgage loans held for sale are measured using observable quoted market or contract prices or market price equivalents and are classified as level 2 in ASC Topic 820.

Derivative Assets and Derivative Liabilities. Derivative assets and derivative liabilities are reported at fair value utilizing level 2 measurements. The fair value of derivative assets and liabilities is determined based on prices that are obtained from a third-party which uses observable market inputs. Derivative assets and liabilities are classified as level 2 in ASC Topic 820.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value *(dollars in thousands)*:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2018				
Fair value adjusted through comprehensive income:				
Securities available for sale				
U.S. Treasury securities	$	$ 59,958	$	$ 59,958
Obligations of U.S. government corporations and agencies		94,497		94,497
Obligations of states and political subdivisions		246,654		246,654
Residential mortgage-backed securities		354,055		354,055
Corporate debt securities		116,174		116,174
Fair value adjusted through current period earnings:				
Securities equity investments	5,689			5,689
Loans held for sale		33,974		33,974
Derivative assets		2,465		2,465
Derivative liabilities		2,759		2,759

Table of Contents

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2017				
Securities available for sale				
U.S. Treasury securities	$	$ 60,348	$	$ 60,348
Obligations of U.S. government corporations and agencies		103,665		103,665
Obligations of states and political subdivisions		280,199		280,199
Residential mortgage-backed securities		397,436		397,436
Corporate debt securities		31,034		31,034
Securities equity investments	5,378			5,378
Loans held for sale		94,848		94,848
Derivative assets		937		937
Derivative liabilities		2,410		2,410

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

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

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

Bank Property Held for Sale. Bank property held for sale represents certain banking center office buildings which the Company has closed and consolidated with other existing banking centers. Bank property held for sale is measured at the lower of amortized cost or fair value less estimated costs to sell. The fair values were based upon appraisals or real estate listing price. Due to the significance of the unobservable inputs, all bank property held for sale fair values have been classified as level 3 in ASC Topic 820.

The following table summarizes assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2018 and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value *(dollars in thousands)*:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2018				
Impaired loans	$	$	$ 3,319	$ 3,319
OREO			55	55
Bank property held for sale			3,711	3,711
December 31, 2017				
Impaired loans	$	$	$ 1,313	$ 1,313
OREO(1)				

(1)OREO fair value was less than one thousand dollars.

Table of Contents

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

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
June 30, 2018				
Impaired loans	$ 3,319	Appraisal of collateral	Appraisal adjustments	-0.1% to -100.0% (-36.5)%
OREO	55	Appraisal of collateral	Appraisal adjustments	-25.0% to -100.0% (-65.0)%
Bank property held for sale	3,711	Appraisal of collateral or real estate listing price	Appraisal adjustments	-0.0% to -35.1% (-18.0)%
December 31, 2017				
Impaired loans	$ 1,313	Appraisal of collateral	Appraisal adjustments	-20.3% to -100.0% (-30.8)%
OREO(1)		Appraisal of collateral	Appraisal adjustments	-100.0% (-100.0)%

(1)OREO fair value was less than one thousand dollars.

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	$ 230,730	$ 230,730	$ 353,272	$ 353,272
Level 2 inputs:				
Securities held to maturity	507,780	496,715	443,550	441,052
Accrued interest receivable	22,476	22,476	22,591	22,591
Level 3 inputs:				
Portfolio loans, net	5,501,982	5,423,322	5,465,918	5,361,406
Mortgage servicing rights	3,502	10,813	3,680	8,635
Other servicing rights	390	1,041	280	901
Financial liabilities:				
Level 2 inputs:				
Time deposits(2)	$ 1,474,506	$ 1,461,928	$	$
Deposits(2)			6,125,965	6,119,135
Securities sold under agreements to repurchase	240,109	240,109	304,566	304,566
Short-term borrowings	150,000	150,000	220,000	220,000
Long-term debt	50,000	50,000	50,000	50,000
	71,081	71,081	71,008	71,008

Junior subordinated debt owed to unconsolidated trusts				
Accrued interest payable	4,198	4,198	2,581	2,581
Level 3 inputs:				
Senior notes, net of unamortized issuance costs	39,472	38,328	39,404	39,104
Subordinated notes, net of unamortized issuance costs	64,653	63,103	64,715	64,350

(2)In connection with the adoption of ASU 2016-01 in 2018, only deposits with stated maturities are required to be disclosed.

Table of Contents

ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

Note 18: Liability for Loans Sold

Under standard representations and warranties and early payment default clauses in the Company s mortgage sale agreements, the Company could be required to repurchase mortgage loans sold to investors or reimburse the investors for losses incurred on loans in the event of borrower default within a defined period after origination (generally 90 days), or in the event of breaches of contractual representations or warranties made at the time of sale that are not remedied within a defined period after the Company receives notice of such breaches (generally 90 days). In addition, the Company may be required to refund the profit received from the sale of a loan to an investor if the borrower pays off the loan within a defined period after origination, which is generally 120 days. The Company records an estimated liability for probable amounts due to the Company s loan investors under these obligations. This repurchase liability is determined based on a combination of factors including the volume of loans sold in current and previous periods; borrower default expectations; historical investor repurchase demand and appeals success rates; and estimated loss severity. Payments made to investors as reimbursement for losses incurred are charged against the mortgage repurchase liability. Loans repurchased from investors are initially recorded at fair value, which becomes the Company s new accounting basis. The difference between the loan s fair value and the payment made to investors as reimbursement for losses incurred is charged to the mortgage repurchase liability. Subsequent to repurchase, such loans are carried as portfolio loans on the Company s Consolidated Balance Sheets. Loans repurchased with deteriorated credit quality at the date of repurchase are accounted for under ASC Topic 310-30.

The liability for loans sold of $2.0 million and $2.1 million at June 30, 2018 and December 31, 2017, respectively, represents the Company s best estimate of the probable losses that the Company will incur for various early default provisions and contractual representations and warranties associated with the sales of mortgage loans and is included in other liabilities in the accompanying Consolidated Balance Sheets. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. In addition, the Company generally does not service the loans that it has sold to investors and is generally unable to track the remaining unpaid balances or delinquency status after sale. As a result, there may be a range of possible losses in excess of the estimated liability that cannot be estimated. Management maintains regular contact with the Company s investors to monitor and address their repurchase demand practices and concerns.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of the financial condition of First Busey at June 30, 2018 (unaudited), as compared with December 31, 2017 and June 30, 2017 (unaudited), and the results of operations for the three and six months ended June 30, 2018 (unaudited) and 2017 (unaudited), and the three months ended March 31, 2018 (unaudited) when applicable. Management s discussion and analysis should be read in conjunction with the Company s unaudited Consolidated Financial Statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q, as well as the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

EXECUTIVE SUMMARY

Operating Results

The Company s net income for the second quarter of 2018 was $24.9 million, or $0.51 per diluted common share, compared to net income of $21.9 million, or $0.45 per diluted common share, for the first quarter of 2018 and net income of $16.5 million, or $0.43 per diluted common share, for the second quarter of 2017. Adjusted net income(1) for the second quarter of 2018 was $25.6 million, or $0.52 per diluted common share, compared to $24.9 million, or $0.51 per diluted common share, for the first quarter of 2018 and $16.7 million, or $0.43 per diluted common share, for the second quarter of 2017.

Year-to-date net income through June 30, 2018 was $46.8 million, or $0.95 per diluted common share, compared to net income of $31.6 million, or $0.82 per diluted common share, for the comparable period of 2017. Year-to-date adjusted net income(1) for the first six months of 2018 was $50.5 million, or $1.03 per diluted common share, compared to $32.5 million or $0.84 per diluted common share for 2017. The results were favorably impacted by the acquisition of First Community, since the closing of the transaction on July 2, 2017, and Mid Illinois, since the closing of the transaction on October 1, 2017.

For the second quarter of 2018, return on average assets and return on average tangible common equity were 1.30% and 15.59%, respectively, on a basis in accordance with GAAP. Based on adjusted net income(1), return on average assets was 1.34% and return on average tangible common equity was 16.04% for the same period.

For the six months ended June 30, 2018, return on average assets was 1.23%, an increase from 1.20% for the same period of 2017. Based on adjusted net income(1), return on average assets for the first six months of 2018 was 1.33% compared to 1.23% for the comparable period of 2017. Return on average tangible common equity was 14.90% for the first six months of 2018 compared to 13.30% for the same period of 2017. Return on average tangible common equity based on adjusted net income(1) was 16.08% for the first half of 2018 compared to 13.65% for the first half of 2017.

The Company views certain non-operating items including, but not limited to, acquisition-related and restructuring charges, as adjustments to net income. Non-operating adjustments for the second quarter of 2018 were expenses related to acquisitions, including $0.8 million in fixed asset impairments and $0.1 million of data processing conversion and other acquisition-related expenses. The reconciliation of non-GAAP measures (including adjusted net income, adjusted efficiency ratio, adjusted return on average assets, return on average tangible common equity, tangible book value and tangible book value per share), which the Company believes facilitates the assessment of its banking operations and peer comparability, is included in tabular form in this Quarterly Report on Form 10-Q in the Non-GAAP Financial Information section.

Revenues from trust fees, commissions and brokers fees, and remittance processing activities represented 49.0% of the Company s non-interest income for the quarter ended June 30, 2018, providing a balance to revenue from traditional banking activities. Two of the Company s acquisitions, Pulaski Financial Corp. and First Community, had no legacy fee income in these businesses; therefore, the addition of these fee-based service offerings in the corresponding acquired bank markets is expected to continue providing attractive growth opportunities in future periods.

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(1)For a reconciliation of adjusted net income, a non-GAAP financial measure, see Non-GAAP Financial Information.

Table of Contents

Asset Quality

We remain committed to our focus on quality balance sheet growth and our credit metrics remain solid. As of June 30, 2018, non-performing loans decreased to $26.4 million, compared to $33.6 million as of March 31, 2018, and increased from $20.1 million as of June 30, 2017. Non-performing loans were 0.47% of total portfolio loans as of June 30, 2018, compared to 0.61% as of March 31, 2018 and 0.51% as of June 30, 2017.

The Company recorded net charge-offs of $1.6 million for the second quarter of 2018, a decrease compared to $1.9 million for the first quarter of 2018, and an increase compared to net recoveries of $0.3 million for the second quarter of 2017. The allowance for loan loss as a percentage of portfolio loans was 0.96% at June 30, 2018 as compared to 0.95% at March 31, 2018 and 1.25% at June 30, 2017. As a result of acquisitions, the Company is holding acquired loans that are carried net of a fair value adjustment for credit and interest rate marks and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. The Company recorded provision for loan losses of $2.3 million in the second quarter of 2018, compared to $1.0 million in the first quarter of 2018 and $0.5 million in the second quarter of 2017. The Company recorded provision for loan losses of $3.3 million in the first six months of 2018 and $1.0 million in the first six months of 2017.

The key metrics are as follows *(dollars in thousands):*

	As of and for the Three Months Ended			
	June 30, 2018	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**
Portfolio loans	$ 5,555,287	$ 5,531,453	$ 5,519,500	$ 5,085,864
Commercial loans(1)	4,076,253	4,061,181	4,030,821	3,782,463
Allowance for loan losses	53,305	52,649	53,582	51,035
Non-performing loans				
Non-accrual loans	25,215	32,588	24,624	27,430
Loans 90+ days past due	1,142	995	2,741	439
Loans 30-89 days past due	10,017	9,506	12,897	11,556
OREO	3,694	1,001	1,283	1,172
Non-performing assets to portfolio loans and non-performing assets	0.5%	0.6%	0.5%	0.6%
Allowance as a percentage of non-performing loans	202.2%	156.8%	195.8%	183.1%
Allowance for loan losses to portfolio loans	0.96%	0.95%	0.97%	1.0%

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

Economic Conditions of Markets

The Company has 44 banking centers serving Illinois. Our primary downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, well-recognized and stable organizations. Those organizations, coupled with a large agricultural sector,

anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business. The First Community acquisition provided the Company entrance into the demographically and economically attractive southwest suburban markets of the greater Chicagoland area and is part of the Company s strategy of expanding into markets with both population and commercial density in the Midwest.

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

Busey Bank has 13 banking centers serving the St. Louis metropolitan area, all of which are located in the city of St. Louis, or the adjacent counties of St. Louis County and St. Charles County. St. Louis, Missouri is the largest metropolitan area in Missouri and the twentieth largest in the United States. The bi-state metropolitan area includes seven counties in Missouri and eight counties in Illinois. The Company s geographic concentration in only three of the 15 counties included in the St. Louis metropolitan area gives the Company tremendous expansion opportunities into neighboring counties. St. Louis has a diverse economy with major employment sectors including health care, financial services, professional and business services, and retail. St. Charles County has been one of the fastest-growing counties in the country for decades and features a cross-section of industry, as well as extensive retail and some agriculture.

Table of Contents

Busey Bank has five 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 several years.

Busey Bank 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 host to numerous conventions and sporting events annually.

OPERATING PERFORMANCE

Net interest income

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

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes an income tax rate of 26% in 2018 and 35% in 2017. 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. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on changes due to rate and changes due to volume. All average information is provided on a daily average basis.

Table of Contents

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

	2018			2017			Change in income/ expense due to		
	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Volume	Average Yield/Rate	Total Change
	(dollars in thousands)								
Assets									
Interest-bearing bank deposits and federal funds sold	$ 115,599	$ 508	1.76%	$ 182,562	$ 454	1.00%	$ (208)	$ 262	$ 54
Investment securities									
U.S. Government obligations	155,009	636	1.65%	144,653	487	1.35%	37	112	149
Obligations of states and political subdivisions(1)	290,802	1,986	2.74%	186,547	1,411	3.03%	723	(148)	575
Other securities	862,392	5,328	2.48%	480,064	2,811	2.35%	2,354	163	2,517
Loans held for sale	27,516	299	4.36%	104,420	1,000	3.84%	(820)	119	(701)
Portfolio loans(1) (2)	5,533,168	62,310	4.52%	3,892,327	40,608	4.18%	18,262	3,440	21,702
Total interest-earning assets(1) (3)	$ 6,984,486	$ 71,067	4.08%	$ 4,990,573	$ 46,771	3.76%	$ 20,348	$ 3,948	$ 24,296
Cash and due from banks	102,640			75,959					
Premises and equipment	120,595			78,728					
Allowance for loan losses	(53,521)			(49,260)					
Other assets	499,341			265,074					
Total Assets	$ 7,653,541			$ 5,361,074					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 1,214,863	$ 782	0.26%	$ 1,021,986	$ 333	0.13%	$ 73	$ 376	$ 449
Savings and money market deposits	2,004,299	1,641	0.33%	1,493,040	678	0.18%	230	733	963
Time deposits	1,400,548	4,481	1.28%	743,308	1,152	0.62%	1,511	1,818	3,329
Short-term borrowings:									
Repurchase agreements	235,678	372	0.63%	176,735	204	0.46%	78	90	168
Other (4)	96,429	457	1.90%	2,198	27	4.93%	457	(27)	430
Long-term debt(5)	154,123	1,406	3.66%	120,141	628	2.10%	214	564	778
Junior subordinated debt owed to unconsolidated trusts	71,046	814	4.60%	70,904	621	3.51%	1	192	193
Total interest-bearing liabilities	$ 5,176,986	$ 9,953	0.77%	$ 3,628,312	$ 3,643	0.40%	$ 2,564	$ 3,746	$ 6,310
Net interest spread(1)			3.31%			3.36%			
Noninterest-bearing deposits	1,492,251			1,091,696					
Other liabilities	40,173			36,178					
Stockholders equity	944,131			604,888					
Total Liabilities and Stockholders Equity	$ 7,653,541			$ 5,361,074					
Interest income / earning assets(1) (3)	$ 6,984,486	$ 71,067	4.08%	$ 4,990,573	$ 46,771	3.76%			
Interest expense / earning assets	$ 6,984,486	$ 9,953	0.57%	$ 4,990,573	$ 3,643	0.29%			
Net interest margin(1)		$ 61,114	3.51%		$ 43,128	3.47%	$ 17,784	$ 202	$ 17,986

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(1)On a tax-equivalent basis assuming an income tax rate of 26% in 2018 and 35% in 2017.

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

(3)Interest income includes a tax-equivalent adjustment of $0.8 million for the three months ended June 30, 2018 and 2017.

(4)Includes federal funds purchased, FHLB advances and revolving loan. Interest expense includes a non-usage fee on the revolving loan.

(5)Includes FHLB long-term debt, senior notes and subordinated notes.

(6)Annualized.

Table of Contents

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES

SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (UNAUDITED)

Assets									
Investment securities									
Obligations of states and political subdivisions(1)	299,976	4,073	2.74%	190,803	2,843	3.00%	1,502	(272)	1,230
Loans held for sale	33,372	649	3.92%	121,546	2,238	3.71%	(1,708)	119	(1,589)
Total interest-earning assets(1) (3)	$ 6,980,457	$ 140,464	4.06%	$ 4,947,346	$ 92,411	3.77%	$ 40,577	$ 7,476	$ 48,053
Cash and due from banks	105,667			77,516					
Allowance for loan losses	(54,076)			(48,986)					
Interest-bearing transaction deposits	$ 1,188,922	$ 1,452	0.25%	$ 1,019,185	$ 613	0.12%	$ 117	$ 722	$ 839
Time deposits	1,389,595	8,279	1.20%	760,829	2,338	0.62%	2,781	3,160	5,941
Repurchase agreements	246,802	713	0.58%	171,290	327	0.38%	176	210	386
Long-term debt(5)	154,122	2,763	3.62%	100,181	741	1.49%	555	1,467	2,022
Total interest-bearing liabilities	$ 5,176,113	$ 18,829	0.73%	$ 3,608,122	$ 6,557	0.37%	$ 4,940	$ 7,332	$ 12,272
Net interest spread(1)			3.33%			3.40%			
Noninterest-bearing deposits	1,494,680			1,079,405					
Stockholders equity	938,975			600,176					
Total Liabilities and Stockholders Equity	$ 7,658,691			$ 5,325,723					

Interest income / earning assets(1) (3)	$ 6,980,457	$ 140,464	4.06%	$ 4,947,346	$ 92,411	3.77%

(1)On a tax-equivalent basis assuming an income tax rate of 26% in 2018 and 35% in 2017.

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

(3)Interest income includes a tax-equivalent adjustment of $1.5 million at June 30, 2018 and 2017, respectively.

(4)Includes federal funds purchased, FHLB advances and revolving loan. Interest expense includes a non-usage fee on the revolving loan.

(5)Includes FHLB long-term debt, senior notes and subordinated notes.

(6)Annualized.

Table of Contents

The Consolidated Average Balance Sheets and interest rates were impacted by the 2017 acquisitions of First Community and Mid Illinois, along with organic growth. Total average interest-earning assets increased $2.0 billion, or 40.0%, to $7.0 billion for the three month period ended June 30, 2018, as compared to $5.0 billion for the same period in 2017. Total average interest-earning assets increased $2.1 billion, or 41.1%, to $7.0 billion for the six month period ended June 30, 2018, as compared to $4.9 billion for the same period in 2017. Total average interest-bearing liability balances increased $1.6 billion, or 42.7%, to $5.2 billion for the three month period ended June 30, 2018, as compared to $3.6 billion for the same period in 2017. Total average interest-bearing liability balances increased $1.6 billion, or 43.5%, to $5.2 billion for the six month period ended June 30, 2018, as compared to $3.6 billion for the same period in 2017.

Interest income, on a tax-equivalent basis, increased $24.3 million, or 51.9%, to $71.1 million for the three month period ended June 30, 2018, as compared to $46.8 million in the same period of 2017. Interest income, on a tax-equivalent basis, increased $48.1 million, or 52.0%, to $140.5 million for the six month period ended June 30, 2018, as compared to $92.4 million in the same period of 2017. The interest income increases related primarily to the increase in loan volumes. Interest expense increased during the three month period ended June 30, 2018 by $6.3 million to $10.0 million from $3.7 million in the same period of 2017. Interest expense increased during the six month period ended June 30, 2018 by $12.3 million to $18.8 million from $6.5 million in the same period of 2017. The interest expense increases were the result of increases in deposits and borrowings related to the 2017 acquisitions of First Community and Mid Illinois and rising interest rates.

Net interest income, on a tax-equivalent basis, increased $18.0 million for the three month period ended June 30, 2018, as compared to the same period of 2017. Net interest income, on a tax-equivalent basis, increased $35.8 million for the six month period ended June 30, 2018, as compared to the same period of 2017. The Federal Open Market Committee announced that the federal funds rate increased from 1.50% to 1.75% on March 21, 2018 and then on June 13, 2018 that the federal funds rate increased from 1.75% to 2.00%. In 2017, for comparison, the federal funds rate increased from 0.75% to 1.00% on March 15, 2017, and then from 1.00% to 1.25% on June 15, 2017. The Company expects the increases in interest rates to be modestly favorable to net interest income for the remainder of 2018; however, rising interest rates could result in decreased demand for first mortgages as well as mortgage refinancing, activities which contribute to a portion of the Company s mortgage revenue.

Net interest margin

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, increased to 3.51% for the three month period ended June 30, 2018, compared to 3.47% for the same period in 2017, and increased to 3.51% for the six month period ended June 30, 2018, compared to 3.50% for the same period in 2017. Net of purchase accounting accretion and amortization(1), the net interest margin for the three month period ended June 30, 2018 was 3.34%, steady with the same period in 2017, and was 3.33% for the six month period ended June 30, 2018, a decrease from 3.36% for the same period in 2017.

Quarterly net interest margins for 2018 and 2017 were as follows:

	2018	2017
First Quarter	3.52%	3.53%
Second Quarter	3.51%	3.47%
Third Quarter		3.60%
Fourth Quarter		3.68%

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 3.31% for the three month period ended June 30, 2018, compared to 3.36% for the same period in 2017 and was 3.33% for the six month period ended June 30, 2018, compared to 3.40% for the same period in 2017.

Management attempts to mitigate the effects of the interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2017 for accounting policies underlying the recognition of interest income and expense.

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(1)For a reconciliation of net interest margin net of purchase accounting accretion and amortization, a non-GAAP financial measure, see Non-GAAP Financial Information.

Table of Contents

Non-interest income (*dollars in thousands*):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Trust fees	$ 6,735	$ 5,827	$ 908	15.6%	$ 14,249	$ 12,017	$ 2,232	18.6%
Commissions and brokers fees, net	883	751	132	17.6%	1,979	1,473	506	34.4%
Remittance processing	3,566	2,859	707	24.7%	6,958	5,704	1,254	22.0%
Fees for customer services	7,290	6,095	1,195	19.6%	14,236	12,081	2,155	17.8%
Mortgage revenue	1,573	2,770	(1,197)	(43.2)%	3,216	4,904	(1,688)	(34.4)%
Security (losses) gains, net	160	(4)	164	NM	160	853	(693)	(81.2)%
Other income	2,595	1,764	831	47.1%	4,490	3,044	1,446	47.5%
Total non-interest income	$ 22,802	$ 20,062	$ 2,740	13.7%	$ 45,288	$ 40,076	$ 5,212	13.0%

NM=Not Meaningful

Total non-interest income of $22.8 million for the three month period ended June 30, 2018 increased by 13.7% as compared to $20.1 million for the same period in 2017. Total non-interest income of $45.3 million for the six month period ended June 30, 2018 increased by 13.0% as compared to $40.1 million for the same period in 2017. The increases reflect organic growth as well as the 2017 acquisitions of First Community and Mid Illinois.

Combined Wealth Management revenue, consisting of trust fees and commissions and brokers fees, net, increased to $7.6 million for the three months ended June 30, 2018 compared to $6.6 million for the three months ended June 30, 2017 and increased to $16.2 million for the six months ended June 30, 2018 compared to $13.5 million for the six months ended June 30, 2017. Market expansion and increasing assets under care drove fee income. Further, two of the Company s acquisitions, Pulaski and First Community, had no legacy fee income in these businesses; therefore, the addition of these fee-based service offerings in the corresponding acquired bank markets is expected to provide attractive growth opportunities in future periods.

Remittance processing revenue from the Company s subsidiary, FirsTech, Inc., of $3.6 million for the three months ended June 30, 2018 increased compared to $2.9 million for the same period of 2017. For the first six months of 2018, remittance processing revenue increased to $7.0 million compared to $5.7 million for the same period of 2017. The positive 2018 results are a reflection of new customer activity and volume increases from existing customers. FirsTech, Inc. adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and nationally.

Fees for customer services increased to $7.3 million for the three month period ended June 30, 2018 as compared to $6.1 million for the same period of 2017 and increased to $14.2 million for the six month period ended June 30, 2018 as compared to $12.1 million for the same period of 2017. Evolving regulation, product changes and changing behaviors by our client base may impact the fees for customer services in future periods.

Mortgage revenue decreased to $1.6 million for the three month period ended June 30, 2018 compared to $2.8 million for the same period of 2017 and decreased to $3.2 million for the six month period ended June 30, 2018 compared to $4.9 million for the same period of 2017. 2018 results reflect lower origination volumes, the timing of sales, and the realignment of mortgage origination resources to the Company s branch market areas through the sale of certain mortgage locations in the fourth quarter of 2017.

Security gains, net, vary based on the Company s decisions around selling securities. In the first quarter of 2017, the Company sold 100% risk weighted investments and reinvested in 20% risk weighted investments at higher yields to better manage capital, while also producing higher future returns.

Other income increased 47.1% for the three months ended June 30, 2018 compared to the same period of 2017 and increased 47.5% for the six months ended June 30, 2018 compared to the same period of 2017 across multiple revenue sources.

Table of Contents

Non-interest expense *(dollars in thousands)*:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Salaries, wages and employee benefits	$ 25,472	$ 20,061	$ 5,411	27.0%	$ 54,291	$ 41,951	$ 12,340	29.4%
Net occupancy expense of premises	3,689	3,126	563	18.0%	7,510	6,311	1,199	19.0%
Furniture and equipment expenses	1,790	1,719	71	4.1%	3,703	3,338	365	10.9%
Data processing	4,030	3,306	724	21.9%	8,375	6,235	2,140	34.3%
Amortization of intangible assets	1,490	1,182	308	26.1%	3,005	2,389	616	25.8%
Other expense	10,834	7,374	3,460	46.9%	21,461	14,163	7,298	51.5%
Total non-interest expense	$ 47,305	$ 36,768	$ 10,537	28.7%	$ 98,345	$ 74,387	$ 23,958	32.2%
Income taxes	$ 8,749	$ 8,681	$ 68	0.8%	$ 17,027	$ 17,419	$ (392)	(2.3)%
Effective rate on income taxes	26.0%	34.5%			26.7%	35.5%		
Efficiency ratio	54.7%	56.3%			57.2%	57.6%		
Full-time equivalent employees as of period-end	1,288	1,238						

Total non-interest expense of $47.3 million for the three month period ended June 30, 2018 increased as compared to $36.8 million for the same period in 2017. Total non-interest expense of $98.3 million for the six month period ended June 30, 2018 increased as compared to $74.4 million for the same period in 2017. Pre-tax non-operating expenses of $1.0 million impacted the three month period ended June 30, 2018 while pre-tax non-operating expenses of $0.3 million impacted the same period of 2017. Pre-tax non-operating expenses of $4.5 million impacted the six month period ended June 30, 2018 while pre-tax non-operating expenses of $1.3 million impacted the same period 2017. We continue to examine expenses across all areas of the Company and remain focused on expense discipline, with an emphasis on the ones outlined below.

Salaries, wages and employee benefits expense of $25.5 million increased $5.4 million for the three month period ended June 30, 2018 as compared to the same period in 2017 and increased $12.3 million, to $54.3 million, for the six month period ended June 30, 2018 as compared to the same period of 2017. The increase was primarily as a result of an increased number of employees resulting from the First Community and Mid Illinois acquisitions. In addition, restructuring costs designed to address the changing needs of our organization as we seek to balance growth with efficiency, negatively impacted the six month period ended June 30, 2018 by $1.7 million. Full-time equivalent employees totaled 1,288 at June 30, 2018, down from 1,347 at December 31, 2017, and up from 1,238 at June 30, 2017.

Combined net occupancy expense of premises and furniture and equipment expenses of $5.5 million and $11.2 million for the three and six month periods ended June 30, 2018, respectively, increased compared to the same periods in 2017. The 2017 acquisitions added 21 banking centers. We continue to evaluate our banking center network and five banking centers were closed in the first quarter of 2018.

Data processing expense for the three month period ended June 30, 2018 of $4.0 million increased from $3.3 million for the same period of 2017. Data processing expense for the six month period ended June 30, 2018 of $8.4 million decreased from $6.2 million for the same period of 2017. Variances are largely related to deconversion expenses related to acquisitions.

Amortization of intangible assets increased for the three and six month periods ended June 30, 2018 compared to the same period in 2017 as a result of the First Community and Mid Illinois acquisitions.

Other expense of $10.8 million for the three month period ended June 30, 2018 increased $3.5 million compared to the same period in 2017. Other expense of $21.5 million for the six month period ended June 30, 2018 increased $7.3 million compared to the same period in 2017 across multiple expense categories, including fluctuations in gains and losses on OREO sales, business development and acquisition related check card service expense.

The effective rate on income taxes, or income taxes divided by income before taxes, of 26.0% and 26.7% for the three and six months ended June 30, 2018, respectively, was lower than the combined federal and state statutory rate of approximately 28% due to tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a

Table of Contents

portion of our taxable income. Effective July 1, 2017, the combined Illinois corporate income tax rate and replacement tax rate increased from 7.75% to 9.50%. Effective January 1, 2018 in connection with the TCJA, the corporate federal tax rate was reduced from 35.0% to 21.0%.

The efficiency ratio(1) represents total non-interest expense, less amortization charges, as a percentage of tax-equivalent net interest income plus non-interest income, less security gains and losses. The efficiency ratio, which is a measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio of 54.7% for the three month period ended June 30, 2018 improved from 56.3% in the comparable period in 2017 and the efficiency ratio of 57.2% for the six month period ended June 30, 2018 improved from 57.6% in the comparable period in 2017. Operating costs have been influenced by acquisitions and the adjusted efficiency ratio(1), excluding the impact of such acquisition costs among other items, was 53.6% and 55.8% for the three month periods ended June 30, 2018 and 2017, respectively. The adjusted efficiency ratio(1) was 54.5% and 56.5% for the six month periods ended June 30, 2018 and 2017, respectively. While acquisition expenses may have a negative impact on the efficiency ratios, the Company expects to realize operating efficiencies creating a positive impact in future years. Further, the Company started to see greater operating efficiencies from the South Side integration beginning in the second quarter of 2018. We will continue to examine appropriate avenues to improve efficiency and remain consistently focused on expense discipline.

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(1)For a reconciliation of efficiency ratio and adjusted efficiency ratio, non-GAAP financial measures, see Non-GAAP Financial Information.

FINANCIAL CONDITION

Significant Consolidated Balance Sheet items *(dollars in thousands)*:

		June 30, 2018		December 31, 2017		$ Change	% Change
Assets							
Securities available for sale	$	871,338	$	872,682	$	(1,344)	(0.2)%
Securities held to maturity		507,780		443,550		64,230	14.5%
Loans held for sale		33,974		94,848		(60,874)	(64.2)%
Portfolio loans, net		5,501,982		5,465,918		36,064	0.7%
Total assets	$	7,775,544	$	7,860,640	$	(85,096)	(1.1)%
Liabilities							
Deposits:							
Noninterest-bearing	$	1,496,671	$	1,597,421	$	(100,750)	(6.3)%
Interest-bearing		4,667,241		4,528,544		138,697	3.1%
Total deposits	$	6,163,912	$	6,125,965	$	37,947	0.6%
Securities sold under agreements to repurchase	$	240,109	$	304,566	$	(64,457)	(21.2)%
Short-term borrowings		150,000		220,000		(70,000)	(31.8)%
Long-term debt		50,000		50,000			%
Senior notes, net of unamortized issuance costs		39,472		39,404		68	0.2%
Subordinated notes, net of unamortized issuance costs		64,653		64,715		(62)	(0.1)%
		71,081		71,008		73	0.1%

Junior subordinated debt owed to unconsolidated trusts							
Total liabilities	$	6,818,362	$	6,925,637	$	(107,275)	(1.5)%
Stockholders equity	$	957,182	$	935,003	$	22,179	2.4%

In the first half of 2018, we continued to emphasize our key priorities - balance sheet strength, profitability and growth - achieved within a framework of safety and soundness. Our capital position remains strong and we continue to focus on a sound credit foundation. We believe our emphasis on commercial banking and wealth management, supplemented by our remittance processing activities, will drive growth in the remainder of 2018 and beyond.

Table of Contents

Loans Held for Sale

Loans held for sale totaled $34.0 million and $94.8 million at June 30, 2018 and December 31, 2017, respectively. The amount of loans held for sale decreased from December 31, 2017, due to lower origination volumes in 2018. Lower origination volumes are a reflection of the realignment of mortgage origination resources to the Company s branch market areas through the sale of certain mortgage locations in the fourth quarter of 2017. Loans held for sale generate net interest income until loans are delivered to investors, at which point mortgage revenue will be recognized.

Portfolio Loans

Geographic distributions of portfolio loans by category were as follows *(dollars in thousands)*:

	June 30, 2018				
	Illinois	**Missouri**	**Florida**	**Indiana**	**Total**
Commercial	$ 988,777	$ 414,808	$ 18,750	$ 23,726	$ 1,446,061
Commercial real estate	1,465,222	585,258	158,250	146,495	2,355,225
Real estate construction	92,607	107,137	13,038	62,185	274,967
Retail real estate	831,694	494,651	100,978	22,153	1,449,476
Retail other	25,242	2,628	1,123	565	29,558
Portfolio loans	$ 3,403,542	$ 1,604,482	$ 292,139	$ 255,124	$ 5,555,287
Less allowance for loan losses					53,305
Portfolio loans, net					$ 5,501,982

	December 31, 2017				
	Illinois	**Missouri**	**Florida**	**Indiana**	**Total**
Commercial	$ 974,392	$ 378,424	$ 19,005	$ 42,810	$ 1,414,631
Commercial real estate	1,505,819	547,200	147,360	154,305	2,354,684
Real estate construction	87,084	74,662	26,209	73,551	261,506
Retail real estate	835,287	509,500	98,112	17,902	1,460,801
Retail other	26,230	685	961	2	27,878
Portfolio loans	$ 3,428,812	$ 1,510,471	$ 291,647	$ 288,570	$ 5,519,500
Less allowance for loan losses					53,582
Portfolio loans, net					$ 5,465,918

Portfolio loans increased $35.8 million, or 0.6%, as of June 30, 2018 compared to December 31, 2017. Commercial balances (consisting of commercial, commercial real estate and real estate construction loans) increased $45.4 million from December 31, 2017. Retail real estate and retail other loans decreased $9.6 million from December 31, 2017. 2018 loan growth was driven by organic originations, particularly in the Missouri market. Relationship banking, rather than transactional banking, remains a focus for the Company. 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.

Allowance for Loan Losses

Our allowance for loan losses was $53.3 million, or 0.96% of portfolio loans, and $53.6 million, or 0.97% of portfolio loans, at June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, management believed the level of the allowance and coverage of non-performing loans to be appropriate based upon the information available. However, additional losses may be identified in our loan portfolio as new information is obtained. We may need to provide for additional loan losses in the future as management continues to identify potential problem loans and gains further information concerning existing problem loans.

Table of Contents

Provision for Loan Losses

The provision for loan losses is a current charge against income and represents an amount which management believes is sufficient to maintain an appropriate allowance for known and probable losses in the loan portfolio. In assessing the appropriateness of the allowance for loan losses, management considers the size and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, historical loan loss experience and credit quality of the portfolio. When a determination is made by management to charge-off a loan balance, a write-off is charged against the allowance for loan losses. We continue to attempt to identify problem loan situations on a proactive basis. Once problem loans are identified, adjustments to the provision for loan losses are made based upon all information available at that time.

The provision for loan losses was $3.3 million and $1.0 million at June 30, 2018 and 2017, respectively. As a result of acquisitions, the Company is holding acquired loans that are carried net of a fair value adjustment for credit and interest rate marks and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew and as the Company originates new loan production, it is necessary to establish an allowance for losses, which represents an amount that, in management s opinion, will be adequate to absorb probable credit losses.

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

Non-performing Loans

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

Typically, loans are collateral dependent. When a collateral dependent loan is classified as non-accrual it is charged down through the allowance for loan losses to the fair value of our interest in the underlying collateral less estimated costs to sell. Our loan portfolio is collateralized primarily by real estate.

The following table sets forth information concerning non-performing loans as of each of the dates indicated *(dollars in thousands)*:

	June 30, 2018	**March 31, 2018**	**December 31, 2017**	**September 30, 2017**
Non-accrual loans	$ 25,215	$ 32,588	$ 24,624	$ 27,430

Loans 90+ days past due and still accruing		1,142		995		2,741		439
Total non-performing loans	$	26,357	$	33,583	$	27,365	$	27,869
OREO	$	3,694	$	1,001	$	1,283	$	1,172
Total non-performing assets	$	30,051	$	34,584	$	28,648	$	29,041
Allowance for loan losses	$	53,305	$	52,649	$	53,582	$	51,035
Allowance for loan losses to portfolio loans		0.96%		0.95%		0.97%		1.00%
Allowance for loan losses to non-performing loans		202.2%		156.8%		195.8%		183.1%
Non-performing loans to portfolio loans, before allowance for loan losses		0.5%		0.6%		0.5%		0.5%
Non-performing loans and OREO to portfolio loans, before allowance for loan losses		0.5%		0.6%		0.5%		0.6%

Total non-performing assets were $30.1 million at June 30, 2018, compared to $28.6 million at December 31, 2017. Non-performing assets as a percentage of total loans and non-performing assets continued to be favorably low at 0.5% on June 30, 2018. 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.

Table of Contents

Potential Problem Loans

Potential problem loans are those loans which are not categorized as impaired, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with present loan repayment terms. Management assesses the potential for loss on such loans as it would with other problem loans and has considered the effect of any potential loss in determining its provision for probable loan losses. Potential problem loans totaled $106.1 million at June 30, 2018, compared to $70.4 million at December 31, 2017. Management continues to monitor these credits and anticipates that restructurings, guarantees, additional collateral or other planned actions will result in full repayment of the debts. As of June 30, 2018, management identified no other loans that represent or result from trends or uncertainties which management reasonably expected to materially impact future operating results, liquidity or capital resources.

LIQUIDITY

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

First Busey s primary sources of funds consist of deposits, investment maturities and sales, loan principal repayments, and capital funds. Additional liquidity is provided by the ability to borrow from the FHLB, the Federal Reserve, First Busey s revolving loan facility, or to utilize brokered deposits.

As of June 30, 2018, management believed that adequate liquidity existed to meet all projected cash flow obligations. We seek to achieve a satisfactory degree of liquidity by actively managing both assets and liabilities. Asset management guides the proportion of liquid assets to total assets, while liability management monitors future funding requirements and prices liabilities accordingly.

OFF-BALANCE-SHEET ARRANGEMENTS

At June 30, 2018 and December 31, 2017 the Company had outstanding standby letters of credit of $34.7 million and $37.2 million, respectively, and commitments to extend credit of $1.3 billion to its customers. Since these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. These commitments are made in the ordinary course of business to meet the financing needs of the Company s customers. As of June 30, 2018, no amounts were recorded as liabilities for the Company s potential obligations under these commitments.

CAPITAL RESOURCES

Our capital ratios are in excess of those required to be considered well-capitalized pursuant to applicable regulatory guidelines. The Federal Reserve Board uses capital adequacy guidelines in its examination and regulation of bank holding companies and their subsidiary bank. Risk-based capital ratios are established by allocating assets and certain off-balance-sheet commitments into risk-weighted categories. These balances are then multiplied by the factor appropriate for that risk-weighted category. For 2018, the guidelines, including the capital conservation buffer, required bank holding companies and their subsidiary bank to maintain a total capital to total risk-weighted asset ratio of not less than 9.875%, Tier 1 capital to total risk-weighted asset ratio of not less than 7.875%, Common Equity Tier 1 capital to total risk-weighted asset ratio of not less than 6.375% and a Tier 1 leverage ratio of not less than 4.00%. These minimum capital requirements will increase annually until the Basel III Rule is fully phased-in on January 1, 2019. As of June 30, 2018, First Busey had a total capital to total risk-weighted asset ratio of 14.42%, a Tier 1 capital to risk-weighted asset ratio of 12.44%, Common Equity Tier 1 capital to risk-weighted asset ratio of 11.21% and a Tier 1 leverage ratio of 10.13%; Busey Bank had ratios of 14.03%, 13.14%, 13.14% and 10.68%, respectively.

Table of Contents

NON-GAAP FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q contains certain financial information determined by methods other than in accordance with GAAP. These measures include adjusted net income, adjusted return on average assets, adjusted net interest margin, adjusted efficiency ratio, tangible common equity, tangible common equity to tangible assets and return on average common equity. Management uses these non-GAAP measures, together with the related GAAP measures, to analyze the Company s performance and to make business decisions. Management also uses these measures for peer comparisons.

A reconciliation to what management believes to be the most direct compared GAAP financial measures, specifically net income in the case of adjusted net income and adjusted return on average assets, total net interest income, total non-interest income and total non-interest expense in the case of adjusted efficiency ratio and total stockholders equity in the case of the tangible book value per share, appears below *(dollars in thousands, except per share data)*. The Company believes each of the adjusted measures is useful for investors and management to understand the effects of certain non-interest items and provides additional perspective on the Company s performance over time as well as comparison to the Company s peers.

These non-GAAP disclosures have inherent limitations and are not audited. They should not be considered in isolation or as a substitute for the results reported in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Tax effected numbers included in these non-GAAP disclosures are based on estimated statutory rates.

Reconciliation of Non-GAAP Financial Measures Adjusted Net Income and Return on Average Assets

	Three Months Ended			Six Months Ended	
	June 30, 2018	**March 31, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income	$ 24,862	$ 21,917	$ 16,479	$ 46,779	$ 31,649
Acquisition expenses					
Salaries, wages and employee benefits		1,233		1,233	
Data processing	34	372	81	406	86
Other (includes professional and legal)	107	1,950	266	2,057	1,017
Other restructuring costs					
Salaries, wages and employee benefits		417		417	215
Fixed asset impairments	817			817	
Related tax benefit	(230)	(967)	(139)	(1,197)	(486)
Adjusted net income	$ 25,590	$ 24,922	$ 16,687	$ 50,512	$ 32,481
Average total assets	$ 7,653,541	$ 7,663,899	$ 5,361,074	$ 7,658,691	$ 5,325,723
Reported: Return on average assets(1)	1.30%	1.16%	1.23%	1.23%	1.20%
Adjusted: Return on average assets(1)	1.34%	1.32%	1.25%	1.33%	1.23%

(1)Annualized measure

57

Table of Contents

Reconciliation of Non-GAAP Financial Measures Adjusted Net Interest Margin

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Reported: Net interest income	$ 60,372	$ 59,757	$ 42,366	$ 120,129	$ 84,379
Tax-equivalency adjustment	742	764	762	1,506	1,475
Less: Purchase accounting amortization	(3,015)	(3,410)	(1,630)	(6,425)	(3,481)
Adjusted: Net interest income	$ 58,099	$ 57,111	$ 41,498	$ 115,210	$ 82,373
Average interest-earning assets	$ 6,984,486	$ 6,976,383	$ 4,990,573	$ 6,980,457	$ 4,947,346
Reported: Net interest margin(1)	3.51%	3.52%	3.47%	3.51%	3.50%
Adjusted: Net Interest margin(1)	3.34%	3.32%	3.34%	3.33%	3.36%

(1)Annualized measure

Reconciliation of Non-GAAP Financial Measures Adjusted Efficiency Ratio

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Reported: Net Interest income	$ 60,372	$ 59,757	$ 42,366	$ 120,129	$ 84,379
Tax-equivalency adjustment	742	764	762	1,506	1,475
Tax equivalent interest income	$ 61,114	$ 60,521	$ 43,128	$ 121,635	$ 85,854
Reported: Non-interest income	22,802	22,486	20,062	45,288	40,076
Less: Security gain (loss), net	160		(4)	160	853
Adjusted: Non-interest income	$ 22,642	$ 22,486	$ 20,066	$ 45,128	$ 39,223
Reported: Non-interest expense	47,305	51,040	36,768	98,345	74,387
Less:					
Amortization	(1,490)	(1,515)	(1,182)	(3,005)	(2,389)
Non-operating adjustments:					
Salaries, wages and employee benefits		(1,650)		(1,650)	
Data processing	(34)	(372)	(81)	(406)	(86)
Other	(924)	(1,505)	(266)	(2,429)	(1,232)
Adjusted: Non-interest expense	$ 44,857	$ 45,998	$ 35,239	$ 90,855	$ 70,680
Reported: Efficiency ratio	54.70%	59.66%	56.31%	57.17%	57.56%
Adjusted: Efficiency ratio	53.56%	55.41%	55.76%	54.48%	56.51%

Table of Contents

Reconciliation of Non-GAAP Financial Measures — Tangible common equity to tangible assets, Tangible book value per share, Return on average tangible common equity

	As of		
	June 30, 2018	March 31, 2018	June 30, 2017
Total assets	$ 7,775,544	$ 7,778,746	$ 5,531,367
Less:			
Goodwill and other intangible assets, net	(303,407)	(304,897)	(118,887)
Tax effect of goodwill and other intangible assets, net	9,288	9,675	6,435
Tangible assets	$ 7,481,425	$ 7,483,524	$ 5,418,915
Total stockholders' equity	957,182	942,146	613,115
Less:			
Goodwill and other intangible assets, net	(303,407)	(304,897)	(118,887)
Tax effect of goodwill and other intangible assets, net	9,288	9,675	6,435
Tangible stockholders' equity	$ 663,063	$ 646,924	$ 500,663
Tangible common equity to tangible assets(1)	8.86%	8.64%	9.24%
Tangible book value per share	$ 13.40	$ 13.08	$ 12.92

	Three Months Ended		
	June 30, 2018	March 31, 2018	June 30, 2017
Average s			