FIRST BUSEY CORP /NV/
Form 10-Q
May 08, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 3/31/2018

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

N/A

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

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

Yes x No 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 o
Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o
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 May 8, 2018**
Common Stock, $.001 par value	48,723,534

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2018 and December 31, 2017

(Unaudited)

		March 31, 2018		December 31, 2017
		(dollars in thousands)		
Assets				
Cash and cash equivalents (interest-bearing 2018 $251,199; 2017 $234,889)	$	367,525	$	353,272
Securities available for sale		822,101		872,682
Securities held to maturity		459,007		443,550
Securities equity investments		5,028		5,378
Loans held for sale		29,034		94,848
Portfolio loans (net of allowance for loan losses 2018 $52,649; 2017 $53,582)		5,478,804		5,465,918
Premises and equipment, net		118,985		116,913
Goodwill		267,685		269,346
Other intangible assets, net		37,212		38,727
Cash surrender value of bank owned life insurance		127,463		126,737
Deferred tax asset, net		16,619		17,296
Other assets		49,283		55,973
Total assets	$	7,778,746	$	7,860,640
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	1,651,333	$	1,597,421
Interest-bearing		4,679,841		4,528,544
Total deposits	$	6,331,174	$	6,125,965
Securities sold under agreements to repurchase		235,311		304,566
Short-term borrowings				220,000
Long-term debt		50,000		50,000
Senior notes, net of unamortized issuance costs		39,438		39,404
Subordinated notes, net of unamortized issuance costs		64,684		64,715
Junior subordinated debt owed to unconsolidated trusts		71,044		71,008
Other liabilities		44,949		49,979
Total liabilities	$	6,836,600	$	6,925,637
Commitments and contingencies (See Note 14: Outstanding Commitments and Contingent Liabilities)				
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		1,084,411		1,084,889
Accumulated deficit		(119,467)		(132,122)
Accumulated other comprehensive loss		(9,674)		(2,810)
Total stockholders equity before treasury stock	$	955,319	$	950,006
Common stock shares held in treasury at cost, 2018 468,342; 2017 500,638		(13,173)		(15,003)
Total stockholders equity	$	942,146	$	935,003
Total liabilities and stockholders equity	$	7,778,746	$	7,860,640

Common shares outstanding at period end	48,717,239	48,684,943

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

		2018		2017
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	60,960	$	40,597
Interest and dividends on investment securities:				
Taxable interest income		6,413		3,603
Non-taxable interest income		1,260		727
Total interest income	$	68,633	$	44,927
Interest expense:				
Deposits	$	5,987	$	2,044
Federal funds purchased and securities sold under agreements to repurchase		341		123
Short-term borrowings		476		47
Long-term debt		164		113
Senior notes		400		
Subordinated notes		793		
Junior subordinated debt owed to unconsolidated trusts		715		587
Total interest expense	$	8,876	$	2,914
Net interest income	$	59,757	$	42,013
Provision for loan losses		1,008		500
Net interest income after provision for loan losses	$	58,749	$	41,513
Non-interest income:				
Trust fees	$	7,514	$	6,190
Commissions and brokers fees, net		1,096		722
Remittance processing		3,392		2,845
Fees for customer services		6,946		5,986
Mortgage revenue		1,643		2,134
Security gains, net				857
Other		1,895		1,280
Total non-interest income	$	22,486	$	20,014
Non-interest expense:				
Salaries, wages and employee benefits	$	28,819	$	21,890
Net occupancy expense of premises		3,821		3,185
Furniture and equipment expenses		1,913		1,619
Data processing		5,231		3,598
Amortization of intangible assets		1,515		1,207
Other		9,741		6,120
Total non-interest expense	$	51,040	$	37,619
Income before income taxes	$	30,195	$	23,908
Income taxes		8,278		8,738
Net income	$	21,917	$	15,170
Basic earnings per common share	$	0.45	$	0.40
Diluted earnings per common share	$	0.45	$	0.39
Dividends declared per share of common stock	$	0.20	$	0.18

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands)	
Net income	$ 21,917	$ 15,170
Other comprehensive loss, before tax:		
Securities available for sale:		
Unrealized net (losses) gains on securities:		
Unrealized net holding (losses) gains arising during period	$ (8,754)	$ 573
Reclassification adjustment for (gains) included in net income		(857)
Other comprehensive loss, before tax	$ (8,754)	$ (284)
Income tax benefit related to items of other comprehensive income	(2,495)	(113)
Other comprehensive loss, net of tax	$ (6,259)	$ (171)
Comprehensive income	$ 15,658	$ 14,999

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 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			15,170			15,170
Other comprehensive loss				(171)		(171)
Issuance of treasury stock for employee stock purchase plan		(239)			439	200
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(1,017)			914	(103)
Net issuance of stock options exercised, net of shares redeemed		(681)			818	137
Cash dividends common stock at $0.18 per share			(6,879)			(6,879)
Stock dividend equivalents restricted stock units at $0.18 per share		103	(103)			
Stock dividend accrued on restricted stock awards assumed with the Pulaski Financial Corp. acquisition at $0.18 per share			(6)			(6)
Return of 28,648 equity trust shares					(860)	(860)
Stock-based compensation		545				545
Balance, March 31, 2017	$ 39	$ 780,427	$ (155,507)	$ (135)	$ (22,477)	$ 602,347
Balance, December 31, 2017	$ 49	$ 1,084,889	$ (132,122)	$ (2,810)	$ (15,003)	$ 935,003
Net income			21,917			21,917
Other comprehensive loss				(6,259)		(6,259)
Tax Cuts and Jobs Act (TCJA) of 2017 reclassification			605	(605)		
Issuance of treasury stock for employee stock purchase plan		(248)			494	246
Net issuance of stock options exercised, net of shares redeemed		(1,206)			1,336	130
Cash dividends common stock at $0.20 per share			(9,739)			(9,739)
		128	(128)			

Stock dividend equivalents restricted stock units at $0.20 per share						
Stock-based compensation		848				848
Balance, March 31, 2018	$ 49	$ 1,084,411	$ (119,467)	$ (9,674)	$ (13,173)	$ 942,146

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 21,917	$ 15,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	848	545
Depreciation	2,384	1,949
Amortization of intangible assets	1,515	1,207
Provision for loan losses	1,008	500
Provision for deferred income taxes	3,172	1,053
Amortization of security premiums and discounts, net	2,324	1,334
Accretion of premiums and discounts on time deposits and trust preferred securities, net	(12)	(99)
Accretion of premiums and discounts on portfolio loans, net	(3,398)	(1,748)
Security gains, net		(857)
Gain on sales of mortgage loans, net of origination costs	(2,093)	(13,964)
Mortgage loans originated for sale	(97,138)	(325,525)
Proceeds from sales of mortgage loans	165,045	493,621
Net losses (gains) on disposition of premises and equipment	52	(4)
Increase in cash surrender value of bank owned life insurance	(726)	(348)
Change in assets and liabilities:		
Decrease in other assets	2,845	14,372
Decrease in other liabilities	(10,401)	(6,943)
Increase (decrease) in interest payable	1,550	(94)
Decrease in income taxes receivable	4,421	6,401
Net cash provided by operating activities before activities	$ 93,313	$ 186,570
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale		121,993
Proceeds from maturities of securities classified available for sale	43,066	47,872
Proceeds from maturities of securities classified held to maturity	8,012	874
Purchase of securities classified available for sale	(2,164)	(64,619)
Purchase of securities classified held to maturity	(24,868)	(43,126)
Change in equity securities, net	350	
Net (increase) decrease in portfolio loans	(10,844)	13,396
Proceeds from disposition of premises and equipment		44
Proceeds from sale of other real estate owned (OREO) properties	639	3,229
Purchases of premises and equipment	(4,508)	(2,095)
Proceeds from the redemption of Federal Home Loan Bank (FHLB) stock, net	4,864	6,365
Net cash provided by investing activities	$ 14,547	$ 83,933

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

		2018		2017
		(dollars in thousands)		
Cash Flows from Financing Activities				
Net increase (decrease) in certificates of deposit	$	72,764	$	(23,588)
Net increase in demand, money market and savings deposits		132,493		134,967
Net decrease in securities sold under agreements to repurchase		(69,255)		(26,076)
Repayment of short-term borrowings		(220,000)		(75,000)
Cash dividends paid		(9,739)		(6,879)
Value of shares surrendered upon vesting to satisfy tax withholding obligations of stock-based compensation				(1,259)
Proceeds from stock options exercised		130		137
Net cash (used in) provided by financing activities	$	(93,607)	$	2,302
Net increase in cash and cash equivalents	$	14,253	$	272,805
Cash and cash equivalents, beginning of period	$	353,272	$	166,706
Cash and cash equivalents, ending of period	$	367,525	$	439,511
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash payments for:				
Interest	$	7,325	$	3,008
Income taxes	$		$	58
Non-cash investing and financing activities:				
Real estate acquired in settlement of loans	$	348	$	190

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of First Busey Corporation and its subsidiaries (First Busey, Company, we, or our), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information and with the instructions to Form 10-Q, and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (GAAP) for complete Annual Financial Statements. Accordingly, these Financial Statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2017 on file with the SEC.

The accompanying Consolidated Balance Sheet as of December 31, 2017, which has been derived from audited Financial Statements, and the unaudited Consolidated Financial Statements have been prepared in accordance with GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations as of the dates and for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) *Topic 606, Revenue from Contracts with Customers (Topic 606).* Topic 606 establishes principles for reporting information about the timing, nature, amount and uncertainty of revenue arising from the Company s contracts to provide goods or services to customers. The Company s revenue is comprised of net interest income, which is explicitly excluded from the scope of Topic 606, 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 generally fully 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 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.

On July 2, 2017, First Busey acquired First Community Financial Partners, Inc., an Illinois corporation (First Community), and its wholly-owned bank subsidiary, First Community Financial Bank. First Busey operated First Community Financial Bank as a separate bank 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. On October 1, 2017, First Busey acquired Mid Illinois Bancorp, Inc., an Illinois

corporation (Mid Illinois) and its wholly-owned bank subsidiary, South Side Trust & Savings Bank of Peoria (South Side Bank). 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. Their operating results are included in the Company s Financial Statements since each date of acquisition.

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

In preparing the accompanying 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.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended March 31, 2018 through the issuance date of these unaudited Consolidated Financial Statements that warranted adjustment to or disclosure in the unaudited Consolidated Financial Statements.

Note 2: Acquisitions

First Community Financial Partners, Inc.

On July 2, 2017, the Company completed its acquisition of First Community, which was headquartered in Joliet, Illinois. 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. Fair values are subject to refinement for up to one year after the closing date of July 2, 2017 as additional information regarding the closing date fair values become available; however, the Company does not expect any further adjustments will be necessary. 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.

First Busey incurred $0.1 million and $0.6 million of pre-tax expenses related to the acquisition of First Community for the three months ended March 31, 2018 and 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) *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, both rounded to $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 March 31, 2018, PCI loans related to this transaction with a carrying value of $5.1 million were outstanding, with the decrease relating to collections. 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 was accelerated in 2017 as a result of collections.

The following table provides the unaudited pro forma information for the results of operations for the three months ended March 31, 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 March 31, 2017	
Total revenues (net interest income plus non-interest income)	$	74,885
Net income		19,111
Diluted earnings per common share		0.42

Mid Illinois Bancorp, Inc.

On October 1, 2017, the Company completed its acquisition of Mid Illinois, 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 $3.0 million of pre-tax expenses related to the acquisition of Mid Illinois for the three months ended March 31, 2018, 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 of pre-tax expenses related to the acquisition of Mid Illinois for the three months ended March 31, 2017, primarily for 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 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
Goodwill		
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 March 31, 2018, PCI loans related to this transaction with a carrying value of $0.9 million were outstanding, with the decrease primarily relating to a loan sale. 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.

Note 3: Recent Accounting Pronouncements

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 also requires 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 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. Additional disclosures related to revenue recognition appears in *Note 1: Basis of Presentation.*

ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by, among other things, requiring: 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 requiring 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 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. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is evaluating the impact this guidance will have on its Consolidated Financial Statements and related disclosures. The Company expects an increase in assets and liabilities as a result of recording additional lease contracts where the Company is lessee.

ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements a comprehensive change in estimating impairment from the current model of losses inherent in loans and securities held to maturity. This current expected credit loss model is expected to result in earlier recognition of losses. ASU 2016-13 will be effective in the first quarter of 2020. The Company s implementation team is analyzing the provisions of ASU 2016-13, including evaluating 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. 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 new alternatives for applying hedge accounting to additional hedging strategies and measuring the hedged item in fair value hedges of interest rate risk, and expects to reduce the cost and complexity of applying hedge accounting by easing the requirements for effective testing, hedge documentation and application of the critical terms match method, and reducing the risk of material error corrections if a company applies the shortcut method incorrectly. 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 2018-02, 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.

Note 4: Securities

The Company held equity securities, consisting of common stock and money market mutual funds, with fair values of $5.0 million and $5.4 million at March 31, 2018 and December 31, 2017, respectively. Money market mutual fund balances were $4.3 million and $4.6 million at March 31, 2018 and December 31, 2017, respectively. There was $0.1 million of unrealized losses recorded in non-interest income in the accompanying unaudited Consolidated Financial Statements during the three months ended March 31, 2018 on the common stock. There were no sales of equity securities during the three months ended March 31, 2018.

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.

The amortized cost, unrealized gains and losses and fair values of securities are summarized as follows *(dollars in thousands)*:

		Cost		Gains		Losses		Value
March 31, 2018:								
Available for sale								
U.S. Treasury securities	$	61,005	$	2	$	(943)	$	60,064
Obligations of U.S. government corporations and agencies (1)		97,967				(1,774)		96,193
Obligations of states and political subdivisions		263,619		447		(3,076)		260,990
Residential mortgage-backed securities		380,783		361		(8,246)		372,898
Corporate debt securities		32,258		34		(336)		31,956
Total	$	835,632	$	844	$	(14,375)	$	822,101
Held to maturity								
Obligations of states and political subdivisions	$	40,464	$	57	$	(150)	$	40,371
Commercial mortgage-backed securities		60,378		7		(1,229)		59,156
Residential mortgage-backed securities		358,165				(7,563)		350,602
Total	$	459,007	$	64	$	(8,942)	$	450,129

(1) The gross unrealized gains on obligations of U.S. government corporations and agencies was less than one thousand dollars.

		Cost		Gains		Losses		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

The amortized cost and fair value of debt securities as of March 31, 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	$ 68,846	$ 68,697	$ 7,744	$ 7,713
Due after one year through five years	259,944	256,126	59,000	58,207
Due after five years through ten years	163,189	161,232	32,451	31,965
Due after ten years	343,653	336,046	359,812	352,244
Total	$ 835,632	$ 822,101	$ 459,007	$ 450,129

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

	Three Months Ended March 31,	
	2018	2017
Gross security gains	$	$ 968
Gross security (losses)		(111)
Security gains, net	$	$ 857

The tax provision for the net realized gains and losses was $0.3 million for the three months ended March 31, 2017.

Investment securities with carrying amounts of $581.2 million and $638.2 million on March 31, 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 March 31, 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*):

	Value	Losses	Value	Losses	Value	Losses
March 31, 2018:						
Available for sale						
U.S. Treasury securities	$ 59,843	$ (943)	$	$	$ 59,843	$ (943)
Obligations of U.S. government corporations and agencies	71,479	(1,111)	24,640	(663)	96,119	(1,774)
Obligations of states and political subdivisions	208,656	(2,851)	16,360	(225)	225,016	(3,076)
Residential mortgage-backed securities	260,034	(4,429)	86,846	(3,817)	346,880	(8,246)
Corporate debt securities	28,356	(336)			28,356	(336)
Total temporarily impaired securities	$ 628,368	$ (9,670)	$ 127,846	$ (4,705)	$ 756,214	$ (14,375)
Held to maturity						
	$ 28,682	$ (150)	$ 150	$	$ 28,832	$ (150)

Obligations of states and political subdivisions(1)												
Commercial mortgage-backed securities		55,876		(1,102)		2,317		(127)		58,193		(1,229)
Residential mortgage-backed securities		350,602		(7,563)						350,602		(7,563)
Total temporarily impaired securities	$	435,160	$	(8,815)	$	2,467	$	(127)	$	437,627	$	(8,942)

(1)Continuous unrealized losses existing for greater than 12 months, gross was less than one thousand dollars.

	Value	Losses	Value	Losses	Value	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)

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 March 31, 2018 was 841, and represented a loss of 1.92% of the aggregate carrying value. As of March 31, 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 March 31, 2018.

The Company had available for sale obligations of state and political subdivisions with a fair value of $261.0 million and $280.2 million as of March 31, 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 $40.4 million and $41.5 million as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018, the fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $252.6 million of general obligation bonds and $48.8 million of revenue bonds issued by 430 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 eight 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.

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)*:

March 31, 2018:

U.S. State	Number of Issuers		Amortized Cost		Fair Value		Average Exposure Per Issuer (Fair Value)
Illinois	91	$	89,465	$	88,644	$	974
Wisconsin	36		23,792		23,583		655
Texas	46		25,760		25,421		553
Michigan	34		19,601		19,687		579
Ohio	20		15,120		14,962		748
Pennsylvania	18		11,011		10,984		610
New Jersey	14		6,340		6,298		450
Missouri	10		5,733		5,691		569
Other	96		58,012		57,306		597
Total general obligations bonds	365	$	254,834	$	252,576	$	692

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

The general obligation bonds are diversified across many issuers, with $4.0 million being the largest exposure to a single issuer at March 31, 2018 and December 31, 2017. Accordingly, as of March 31, 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 statistical rating organization and 0.7% were unrated, based on the aggregate fair value as of March 31, 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)*:

March 31, 2018:

U.S. State	Number of Issuers		Amortized Cost		Fair Value		Average Exposure Per Issuer (Fair Value)
Indiana	14	$	11,977	$	11,911	$	851
Missouri	6		7,369		7,301		1,217
Illinois	7		6,217		6,144		878
Other	38		23,686		23,429		617
Total revenue bonds	65	$	49,249	$	48,785	$	751

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 March 31, 2018 and December 31, 2017, respectively. Accordingly, as of March 31, 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, 99.4% had been rated by at least one nationally recognized statistical rating organization and 0.6% were unrated, based on the fair value as of March 31, 2018 and 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 March 31, 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 statistical rating organizations, market valuations, third-party municipal credit analysis, which may include indicative information regarding the issuer s capacity to pay, market and economic data and such other factors as are available and relevant to the security or the issuer such as its budgetary position and sources, strength and stability of taxes and/or other revenue.

Note 5: Loans held for sale

Loans held for sale totaled $29.0 million and $94.8 million at March 31, 2018 and December 31, 2017, respectively. The amount of loans held for sale decreased from December 31, 2017, due to lower origination volumes. 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 March 31,	
	2018	2017
Premiums received on sales of mortgage loans, including fair value adjustments	$ 4,107	$ 12,151
Less direct origination costs	(3,019)	(10,387)
Less provisions to liability for loans sold	(62)	(25)
Mortgage servicing revenues	617	395
Mortgage revenue	$ 1,643	$ 2,134

Note 6: Portfolio loans

Distributions of portfolio loans were as follows *(dollars in thousands)*:

		March 31, 2018		December 31, 2017
Commercial	$	1,431,496	$	1,414,631
Commercial real estate		2,360,560		2,354,684
Real estate construction		269,125		261,506
Retail real estate		1,443,962		1,460,801
Retail other		26,310		27,878
Portfolio loans	$	5,531,453	$	5,519,500
Less allowance for loan losses		52,649		53,582
Portfolio loans, net	$	5,478,804	$	5,465,918

Net deferred loan origination costs included in the table above were $4.5 million as of March 31, 2018 and $4.1 million as of December 31, 2017. Net accretable purchase accounting adjustments included in the table above reduced loans by $20.7 million as of March 31, 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.

Portfolio loans in the highest grades, represented by the pass and watch categories, totaled $5.3 billion at March 31, 2018 and December 31, 2017. Portfolio loans in the lowest grades, represented by the special mention, substandard and doubtful categories, totaled $223.0 million at

March 31, 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 non-posted and clearings) *(dollars in thousands)*:

	March 31, 2018				
	Pass	**Watch**	**Special Mention**	**Substandard**	**Doubtful**
Commercial	$ 1,195,019	$ 127,638	$ 48,919	$ 52,359	$ 9,927
Commercial real estate	2,164,692	125,008	26,745	43,116	13,269
Real estate construction	220,493	42,085	4,016	2,463	868
Retail real estate	1,411,995	9,069	7,980	4,792	8,506
Retail other	26,666		7	7	18
Total	$ 5,018,865	$ 303,800	$ 87,667	$ 102,737	$ 32,588

	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.

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

	March 31, 2018			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual Loans
Commercial	$ 416	$ 969	$	$ 9,927
Commercial real estate	578	421	175	13,269
Real estate construction				868
Retail real estate	5,592	1,513	799	8,506
Retail other	15	2	21	18
Total	$ 6,601	$ 2,905	$ 995	$ 32,588

	December 31, 2017			
	Loans past due, still accruing			
	30-59 Days	60-89 Days	90+Days	Non-accrual 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.

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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 months ended March 31, 2018 if impaired loans had been current in accordance with their original terms was $0.4 million. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three months ended March 31, 2018.

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, all five primary areas of lending are restructured through short-term interest rate relief, short-term principal payment relief, short-term principal and interest payment relief or forbearance (debt forgiveness). Once a restructured loan exceeds 90 days past due or is placed on non-accrual status, it is classified as non-performing. A summary of restructured loans as of March 31, 2018 and December 31, 2017 is as follows *(dollars in thousands)*:

	March 31, 2018	December 31, 2017
In compliance with modified terms	$ 9,297	$ 9,873
30 89 days past due	78	108
Included in non-performing loans	1,975	1,919
Total	$ 11,350	$ 11,900

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.

There were no performing loans classified as a TDR during the three months ended March 31, 2018 and 2017.

The gross interest income that would have been recorded in the three months ended March 31, 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 months ended March 31, 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 months ended March 31, 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)*.

March 31, 2018	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 12,474	$ 6,772	$ 3,297	$ 10,069	$ 2,298	$ 9,818
Commercial real estate	22,374	17,251	2,545	19,796	1,045	16,724
Real estate construction	1,294	1,270		1,270		847
Retail real estate	19,268	15,891	25	15,916	25	13,769
Retail other	60	39		39		40
Total	$ 55,470	$ 41,223	$ 5,867	$ 47,090	$ 3,368	$ 41,198

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.

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 March 31, 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 3.00% 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 March 31, 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 March 31, 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. During the first quarter of 2018, the Company adjusted qualitative factors for Impact of Competition, Legal & Regulatory and Net Charge-Off Trends based on current analysis. The Company will continue to monitor 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. However, 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 which did not require a related allowance for loan losses as of March 31, 2018 totaled approximately $1.7 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 March 31, 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	3,003	1,536	2	(3,662)	129	1,008
Charged-off	(781)	(1,315)	(97)	(530)	(207)	(2,930)
Recoveries	576	56	33	245	79	989
Ending Balance	$ 17,577	$ 22,090	$ 2,799	$ 9,836	$ 347	$ 52,649

	As of and for the Three Months Ended March 31, 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 loss	(649)	(220)	134	1,220	15	500
Charged-off	(103)	(588)		(451)	(90)	(1,232)
Recoveries	709	33	17	561	59	1,379
Ending Balance	$ 13,260	$ 19,848	$ 2,021	$ 12,978	$ 335	$ 48,442

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

	As of March 31, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individually evaluated for impairment	$ 2,298	$ 1,045	$	$ 25	$	$ 3,368
Loans collectively evaluated for impairment	15,279	21,045	2,799	9,811	347	49,281
Ending Balance	$ 17,577	$ 22,090	$ 2,799	$ 9,836	$ 347	$ 52,649
Loans:						
Loans individually evaluated for impairment	$ 9,277	$ 16,359	$ 689	$ 13,771	$ 39	$ 40,135
Loans collectively evaluated for impairment	1,421,427	2,340,764	267,855	1,428,046	26,271	5,484,363
PCI loans evaluated for impairment	792	3,437	581	2,145		6,955
Ending Balance	$ 1,431,496	$ 2,360,560	$ 269,125	$ 1,443,962	$ 26,310	$ 5,531,453

	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 7: 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 March 31, 2018, the Company held $0.7 million in commercial OREO, $0.3 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 March 31, 2018 the Company had $2.0 million of residential real estate in the process of foreclosure.

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

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Beginning balance	$ 1,283	$ 2,518
Additions, transfers from loans	348	1,417
Additions, fair value from First Community acquisition		722
Additions, fair value from Mid Illinois acquisition		60
Proceeds from sales of OREO	(639)	(5,024)
Gain on sales of OREO	9	1,632
Valuation allowance for OREO		(42)
Ending balance	$ 1,001	$ 1,283

Note 8: Deposits

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

	March 31, 2018	December 31, 2017
Demand deposits, noninterest-bearing	$ 1,651,333	$ 1,597,421
Interest-bearing transaction deposit	1,212,324	1,166,170
Saving deposits and money market deposits	2,058,639	2,026,212
Time deposits	1,408,878	1,336,162
Total	$ 6,331,174	$ 6,125,965

Interest-bearing transaction deposits included $48.2 million and $45.4 million of brokered transaction deposits, including reciprocal brokered deposits, at March 31, 2018 and December 31, 2017, respectively. Savings deposits and money market deposits included $127.3 million and $127.5 million of brokered deposits, including reciprocal brokered deposits, at March 31, 2018 and December 31, 2017, respectively.

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $570.8 million and $578.9 million at March 31, 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 $224.1 million and $197.9 million at March 31, 2018 and December 31, 2017, respectively. The Company held reciprocal brokered time deposits of $59.1 million and $62.0 million at March 31, 2018 and December 31, 2017, respectively, included in the balance of time deposits. Further, the Company held brokered deposits of $250.0 million and $247.7 million at March 31, 2018 and December 31, 2017, respectively, which are included in the balance of time deposits.

As of March 31, 2018, the scheduled maturities of time deposits, are as follows *(dollars in thousands)*:

April 1, 2018	March 31, 2019	$	949,961
April 1, 2019	March 31, 2020		302,299
April 1, 2020	March 31, 2021		60,717
April 1, 2021	March 31, 2022		50,556
April 1, 2022	March 31, 2023		45,273
Thereafter			72
		$	1,408,878

Note 9: Borrowings

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either 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 May 5, 2017, the Company entered into a second amendment to a credit agreement with a correspondent bank to extend a revolving loan facility to the Company in the maximum principal amount of $40.0 million, with an annual interest rate of 2.50% plus the one-month LIBOR rate, which had a maturity date of April 30, 2018. The Company had no outstanding amount on March 31, 2018 or December 31, 2017. 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, decrease the maximum principal amount from $40.0 million to $20.0 million, and amend and restate the LIBOR rate definition to an annual interest rate of 1.75% plus the one-month LIBOR 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 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)*:

		March 31, 2018		December 31, 2017
Securities sold under agreements to repurchase				
Balance at end of period	$	235,311	$	304,566
Weighted average interest rate at end of period		0.55%		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	$	258,049	$	213,527
Weighted average interest rate during period(1)		0.54%		0.46%
Short-term borrowings, FHLB advances				
Balance at end of period	$		$	220,000
Weighted average interest rate at end of period		%		1.42%
Maximum outstanding at any month end in year-to-date period	$	180,000	$	234,600

Average daily balance for the year-to-date period	$	123,889	$	84,201
Weighted average interest rate during period(1)		1.48%		1.20%

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(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.

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

		March 31, 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 March 31, 2018, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 1.40% to 1.71%. The weighted average rate on the long-term advances was 1.52% as of March 31, 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 $0.6 million and $0.9 million, respectively, at March 31, 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 to be 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 10: 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. The Company had $71.0 million of junior subordinated debt owed to unconsolidated trusts at March 31, 2018 and December 31, 2017.

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 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 March 31, 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 our 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 11: Earnings Per Common Share

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

	Three Months Ended March 31,	
	2018	**2017**
Net income	$ 21,917	$ 15,170
Shares:		
Weighted average common shares outstanding	48,775	38,293
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	404	461
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	49,179	38,754
Basic earnings per common share	$ 0.45	$ 0.40
Diluted earnings per common share	$ 0.45	$ 0.39

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 reflects 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 March 31, 2018, 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents. At March 31, 2017, 10,850 outstanding options and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 12: 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.

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 a 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 with previous 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 March 31, 2018, the Company held 468,342 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 March 31, 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 three months ended March 31, 2018 follows:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	213,428	$	16.97	
Exercised	(34,369)		13.62	
Forfeited	(6,985)		20.72	
Expired	(2,171)		16.48	
Outstanding at end of period	169,903	$	17.50	4.27
Exercisable at end of period	126,987	$	15.47	2.80

The Company recorded $0.1 million stock option compensation expense for the three months ended March 31, 2018 related to the converted options from First Community. The Company did not record any stock option compensation expense for the three months ended March 31, 2017. As of March 31, 2018, the Company had $0.4 million of unrecognized stock option expense. This cost is expected to be recognized over a

period of 1.6 years.

Restricted Stock Unit Plan

A summary of the changes in the Company s stock unit awards for the three months ended March 31, 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	3,765		31.18	770		31.18
Vested				(498)		31.18
Forfeited	(834)		30.33			
Non-vested at end of period	590,694	$	22.72	42,683	$	25.51
Outstanding at end of period	590,694	$	22.72	120,755	$	21.06

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 $0.5 million of compensation expense related to non-vested RSUs and DSUs for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was $7.7 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 3.4 years.

As of March 31, 2018, 891,648 shares remain available for issuance pursuant to the Company s 2010 Equity Incentive Plan, 78,690 shares remain available for issuance pursuant to the Company s Employee Stock Purchase Plan and 313,939 shares remain available for issuance pursuant to the First Community 2016 Equity Incentive Plan.

Note 13: Income Taxes

At March 31, 2018, the Company was not under examination by any tax authority.

Note 14: 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*):

	March 31, 2018	December 31, 2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,352,821	$ 1,300,294
Standby letters of credit	35,452	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 March 31, 2018 and December 31, 2017, no amounts were recorded as liabilities for the Company s potential obligations under these guarantees.

Other Commitments

From time to time, the Company will sign contracts for construction projects relating to the Company s facilities.

Note 15: 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 has been in a retained earnings deficit position since 2009, it has not been able to pay dividends since that time. With prior approval from its regulators, however, an Illinois state-chartered bank in this situation may be able to reduce its capital stock by amending its charter to decrease the authorized number of shares, and then make a subsequent distribution to its holding company. Using this approach, and with the approval of its regulators, Busey Bank 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 additional capital distributions from Busey Bank in future periods until such time as Busey Bank is no longer in a retained earnings deficit.

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 March 31, 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.

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 March 31, 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 March 31, 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 March 31, 2018:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 847,408	14.32%	$ 584,466	9.875%	$ 591,864	10.00%
Busey Bank	$ 810,264	13.77%	$ 581,090	9.875%	$ 588,446	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 729,259	12.32%	$ 466,093	7.875%	$ 473,492	8.00%
Busey Bank	$ 757,615	12.87%	$ 463,401	7.875%	$ 470,757	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 655,259	11.07%	$ 377,314	6.375%	$ 384,712	6.50%
Busey Bank	$ 757,615	12.87%	$ 375,134	6.375%	$ 382,490	6.50%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 729,259	9.89%	$ 295,060	4.00%	N/A	N/A
Busey Bank	$ 757,615	10.31%	$ 293,809	4.00%	$ 367,262	5.00%

	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 16: 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.

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

	Goodwill		Total Assets	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Banking	$ 246,999	$ 248,660	$ 7,722,957	$ 7,809,738
Remittance Processing	8,992	8,992	35,465	34,646
Wealth Management	11,694	11,694	31,200	32,077
Other			(10,876)	(15,821)
Totals	$ 267,685	$ 269,346	$ 7,778,746	$ 7,860,640

	Three Months Ended March 31,	
	2018	2017
Net interest income:		
Banking	$ 61,416	$ 42,542
Remittance Processing	16	14
Wealth Management	94	56
Other	(1,769)	(599)
Total net interest income	$ 59,757	$ 42,013
Non-interest income:		
Banking	$ 10,897	$ 10,454
Remittance Processing	3,783	3,024
Wealth Management	8,641	7,017
Other	(835)	(481)
Total non-interest income	$ 22,486	$ 20,014
Non-interest expense:		
Banking	$ 41,386	$ 29,290
Remittance Processing	2,466	2,112
Wealth Management	4,911	3,964
Other	2,277	2,253
Total non-interest expense	$ 51,040	$ 37,619
Income before income taxes:		
Banking	$ 29,919	$ 23,206
Remittance Processing	1,333	926
Wealth Management	3,824	3,109
Other	(4,881)	(3,333)
Total income before income taxes	$ 30,195	$ 23,908
Net income:		
Banking	$ 21,845	$ 14,749
Remittance Processing	953	554
Wealth Management	2,764	1,848
Other	(3,645)	(1,981)
Total net income	$ 21,917	$ 15,170

Note 17: 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 18: Fair Value Measurements* for further discussion of the fair value measurement of such derivatives.

Interest Rate Lock Commitments. At March 31, 2018 and December 31, 2017, the Company had issued $72.1 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 March 31, 2018 and December 31, 2017, the Company had issued $90.9 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):*

	March 31, 2018	December 31, 2017
Fair value recorded in other assets	$ 732	$ 675
Fair value recorded in other liabilities	972	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 months ended March 31, 2018 and 2017 are summarized as follows *(dollars in thousands)*:

	March 31, 2018	March 31, 2017
Gross gains	$ 732	$ 3,865
Gross (losses)	(1,054)	(3,791)

Net (losses) gains	$	(322)	$	74

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. Beginning in the second quarter of 2017, 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 $170.7 million and $161.3 million at March 31, 2018 and December 31, 2017, respectively, these contracts support variable rate, commercial loan relationships totaling $85.4 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.

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):*

	March 31, 2018	December 31, 2017
Fair value recorded in other assets	$ 1,216	$ 262
Fair value recorded in other liabilities	1,216	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 months ended March 31, 2018 are summarized as follows *(dollars in thousands):*

	March 31, 2018
Gross gains	$ 954
Gross losses	(954)
Net gains (losses)	$

First Busey had $0.3 million in securities pledged to secure its obligation under these contracts at March 31, 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 18: 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 March 31, 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.

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 March 31, 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
March 31, 2018				
Fair value adjusted through comprehensive income:				
Securities available for sale				
U.S. Treasury securities	$	$ 60,064	$	$ 60,064
Obligations of U.S. government corporations and agencies		96,193		96,193
Obligations of states and political subdivisions		260,990		260,990
Residential mortgage-backed securities		372,898		372,898
Corporate debt securities		31,956		31,956
Fair value adjusted through current period earnings:				
Securities equity investments	5,028			5,028
Loans held for sale		29,034		29,034
Derivative assets		1,948		1,948
Derivative liabilities		2,188		2,188

	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.

The following table summarizes assets and liabilities measured at fair value on a non-recurring basis as of March 31, 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
March 31, 2018				
Impaired loans	$	$	$ 2,499	$ 2,499
OREO(1)				
December 31, 2017				
Impaired loans	$	$	$ 1,313	$ 1,313
OREO(1)				

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

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)*:

	Fair Value Estimate	Quantitative Information about Level 3 Fair Value Measurements Valuation Techniques	Unobservable Input	Range (Weighted Average)
March 31, 2018				
Impaired loans	$ 2,499	Appraisal of collateral	Appraisal adjustments	-18.7% to -100.0% (-48.4)%
OREO(1)		Appraisal of collateral	Appraisal adjustments	-100.0% (-100.0)%
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)*:

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	$ 367,525	$ 367,525	$ 353,272	$ 353,272
Level 2 inputs:				
Securities held to maturity	459,007	450,129	443,550	441,052
Accrued interest receivable	21,507	21,507	22,591	22,591
Level 3 inputs:				
Portfolio loans, net	5,478,804	5,433,076	5,465,918	5,361,406
Mortgage servicing rights	3,545	10,745	3,680	8,635
Other servicing rights	353	947	280	901
Financial liabilities:				
Level 2 inputs:				
Time deposits(2)	$ 1,408,878	$ 1,397,240	$	$
Deposits(2)			6,125,965	6,119,135
Securities sold under agreements to repurchase	235,311	235,311	304,566	304,566
Short-term borrowings			220,000	220,000
Long-term debt	50,000	50,000	50,000	50,000
Junior subordinated debt owed to unconsolidated trusts	71,044	71,044	71,008	71,008
Accrued interest payable	4,131	4,131	2,581	2,581
Level 3 inputs:				
Senior notes, net of unamortized issuance costs	39,438	38,477	39,404	39,104
Subordinated notes, net of unamortized issuance costs	64,684	63,366	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.

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 19: 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 $2.2 million and $2.1 million at March 31, 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.

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 March 31, 2018 (unaudited), as compared with December 31, 2017 and March 31, 2017 (unaudited), and the results of operations for the three months ended March 31, 2018 (unaudited), as compared to the three months ended December 31, 2017 (unaudited) and March 31, 2017 (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

First Busey s net income for the first quarter of 2018 was $21.9 million, or $0.45 per diluted common share. The Company reported net income of $12.3 million, or $0.25 per diluted common share for the fourth quarter of 2017 and net income of $15.2 million, or $0.39 per diluted common share for the first quarter of 2017. Adjusted net income(1) for the first quarter of 2018 was $24.9 million, or $0.51 per diluted common share compared to $22.5 million, or $0.46 per diluted common share, for the fourth quarter of 2017 and $15.8 million, or $0.41 per diluted common share, for the first quarter of 2017.

In addition to the Company s organic growth, first quarter of 2018 results compared to the first quarter of 2017 benefitted from 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 first quarter of 2018, return on average assets and return on average tangible common equity was 1.16% and 14.18%, respectively, on a basis in accordance with GAAP. Based on adjusted net income(1), return on average assets was 1.32% and return on average tangible common equity was 16.13% for the same period.

The Company views certain non-operating items including, but not limited to, acquisition and restructuring charges, as adjustments to net income. Non-operating adjustments for the first quarter of 2018 include $1.7 million in compensation and severance and $2.3 million in legal, data processing conversion and other expenses related to acquisitions. The reconciliation of non-GAAP measures (including adjusted net income, adjusted efficiency ratio, adjusted return on average assets (ROA), 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 53.4% of the Company s non-interest income for the quarter ended March 31, 2018, providing a balance to revenue from traditional banking activities.

Trust fees and commissions and brokers fees of $8.6 million for the first quarter of 2018 increased from $7.7 million for the fourth quarter of 2017 and $6.9 million for the first quarter of 2017. Net income from the wealth management segment increased to $2.8 million for the first quarter of 2018, compared to $1.5 million or a notable 88.2% increase from the fourth quarter of 2017 and $1.8 million or 49.6% increase from the first quarter of 2017. Market expansion and strong performance from Busey Ag Services, a wealth management division of Busey Bank, contributed to the positive results. Busey Wealth Management ended the first quarter of 2018 with $6.9 billion in assets under care, a 15.9% increase from the fourth quarter of 2017 creating positive momentum going forward.

Remittance processing revenue of $3.4 million for the first quarter of 2018 increased from $2.8 million for the first and fourth quarters of 2017. Net income from the remittance processing segment was $1.0 million for the first quarter of 2018, an increase from $0.4 million for the fourth quarter of 2017 and $0.6 million for the first quarter of 2017. The positive 2018 results are a reflection of new customer activity and volume increases from existing customers.

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

We continue to focus on our Company s organic growth and to evaluate and execute on acquisitions which fit our strategy. New partnerships with talented bankers in St. Louis, Peoria and the Chicagoland area bring an expanding pool of business opportunities to generate value and diversity across new markets.

Asset Quality

While much internal focus has been directed toward growth, the Company s commitment to credit quality remains strong. As of March 31, 2018, the Company reported non-performing loans of $33.6 million compared to $27.4 million as of December 31, 2017. During the first quarter of 2018, the Company completed its integration of the First Community credit process and as a result, identified two former First Community large commercial relationships to be placed on non-accrual. The Company is actively working to resolve these relationships. Non-performing assets were 0.6% of total portfolio loans and non-performing assets as of March 31, 2018 compared to 0.5% as of December 31, 2017.

The Company recorded net charge-offs of $1.9 million for the first quarter of 2018 compared to net charge-offs of $0.3 million for the fourth quarter of 2017. The allowance for loan losses as a percentage of portfolio loans was 0.95% at March 31, 2018 compared to 0.97% at December 31, 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 a provision for loan losses of $1.0 million in the first quarter of 2018, compared to $2.8 million in the fourth quarter of 2017 and $0.5 million in the first quarter of 2017.

With a continued commitment to asset quality and the strength of our Consolidated Balance Sheet, near-term loan losses are expected to remain generally low. While these results are encouraging, asset quality metrics can be generally influenced by market-specific economic conditions, and specific measures may fluctuate from quarter to quarter.

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

	As of and for the Three Months Ended			
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**
Portfolio loans	$ 5,531,453	$ 5,519,500	$ 5,085,864	$ 3,920,464
Commercial loans(1)	4,061,181	4,030,821	3,782,463	2,828,261
Allowance for loan losses	52,649	53,582	51,035	49,201
Non-performing loans				
Non-accrual loans	32,588	24,624	27,430	18,935
Loans 90+ days past due	995	2,741	439	1,123
Loans 30-89 days past due	9,506	12,897	11,556	6,953
OREO	1,001	1,283	1,172	480
Non-performing assets to portfolio loans and non- performing assets	0.6%	0.5%	0.6%	0.5%
Allowance as a percentage of non-performing loans	156.8%	195.80%	183.1%	245.3%
Allowance for loan losses to portfolio loans	0.95%	0.97%	1.0%	1.3%

(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 its 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.

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.

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED MARCH 31, 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	$ 118,327	$ 423	1.45%	$ 92,593	$ 178	0.78%	$ 46	$ 199	$ 245
Investment securities									
U.S. Government obligations	161,572	649	1.63%	147,205	453	1.25%	47	149	196
Obligations of states and political subdivisions(1)	309,252	2,087	2.74%	195,106	1,433	2.98%	779	(125)	654
Other securities	840,078	4,958	2.39%	467,937	2,658	2.30%	2,193	107	2,300
Loans held for sale	39,294	350	3.61%	138,861	1,238	3.62%	(887)	(1)	(888)
Portfolio loans(1) (2)	5,507,860	60,930	4.49%	3,861,937	39,680	4.17%	18,010	3,240	21,250
Total interest-earning assets(1) (3)	$ 6,976,383	$ 69,397	4.03%	$ 4,903,639	$ 45,640	3.77%	$ 20,188	$ 3,569	$ 23,757
Cash and due from banks	108,728			79,091					
Premises and equipment	118,356			78,280					
Allowance for loan losses	(54,637)			(48,709)					
Other assets	515,069			277,679					
Total Assets	$ 7,663,899			$ 5,289,980					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 1,162,692	$ 670	0.23%	$ 1,016,353	$ 280	0.11%	$ 45	$ 345	$ 390
Savings and money market deposits	2,026,948	1,519	0.30%	1,455,878	579	0.16%	245	695	940
Time deposits	1,378,520	3,798	1.12%	778,546	1,185	0.62%	1,274	1,339	2,613
Short-term borrowings:									
Repurchase agreements	258,049	341	0.54%	165,785	123	0.30%	91	127	218
Other (4)	123,889	476	1.56%	20,278	47	0.94%	380	49	429
Long-term debt(5)	154,120	1,357	3.57%	80,000	113	0.57%	187	1,057	1,244
Junior subordinated debt owed to unconsolidated trusts	71,010	715	4.08%	70,870	587	3.36%	1	127	128
Total interest-bearing liabilities	$ 5,175,228	$ 8,876	0.70%	$ 3,587,710	$ 2,914	0.33%	$ 2,223	$ 3,739	$ 5,962
Net interest spread(1)			3.33%			3.44%			
Noninterest-bearing deposits	1,497,136			1,066,978					

Other liabilities	57,773			39,882					
Stockholders equity	933,762			595,410					
Total Liabilities and Stockholders Equity	$ 7,663,899			$ 5,289,980					
Interest income / earning assets(1) (3)	$ 6,976,383	$ 69,397	4.03%	$ 4,903,639	$ 45,640	3.77%			
Interest expense / earning assets	$ 6,976,383	$ 8,876	0.51%	$ 4,903,639	$ 2,914	0.24%			
Net interest margin(1)		$ 60,521	3.52%		$ 42,726	3.53%	$ 17,965	$ (170)	$ 17,795

(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 and $0.7 million at March 31, 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.

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 $2.1 billion, or 42.3%, to $7.0 billion for the three month period ended March 31, 2018, as compared to $4.9 billion for the same period in 2017. Loans generally have notably higher yields compared to interest-bearing bank deposits and investment securities and our loan growth contributed to a positive effect on net interest margin. Total average interest-bearing liability balances increased $1.6 billion, or 44.2%, to $5.2 billion for the three month period ended March 31, 2018, as compared to $3.6 billion for the same period in 2017.

Interest income, on a tax-equivalent basis, increased $23.7 million, or 52.1%, to $69.4 million for the three month period ended March 31, 2018, as compared to $45.7 million in the same period of 2017. The interest income increase related primarily to the increase in loan volumes. Interest expense increased during the three month period ended March 31, 2018 by $6.0 million to $8.9 million from $2.9 million in the same period of 2017. The interest expense increase was primarily the result of the increase in deposits and borrowings related to the 2017 acquisitions of First Community and Mid Illinois.

Net interest income, on a tax-equivalent basis, increased $18.0 million for the three month period ended March 31, 2018, as compared to the same period of 2017. The Federal Open Market Committee announced on March 21, 2018 that the federal funds rate increased from 1.50% to 1.75%. The Company expects this increase in interest rates to be modestly favorable to net interest income in 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, was 3.52% for the three month period ended March 31, 2018, compared to 3.53% for the same period in 2017. Net of purchase accounting accretion and amortization(1), the net interest margin for the three month period ended March 31, 2018 was 3.32%, a decrease from 3.38% for the same period in 2017. Changes in net interest margin were driven by the pricing on deposits obtained through the Mid Illinois acquisition.

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

	2018	2017
First Quarter	3.52%	3.53%
Second Quarter		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 3.33% for the three month period ended March 31, 2018, compared to 3.44% 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, see Non-GAAP Financial Information.

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

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
Trust fees	$ 7,514	$ 6,190	$ 1,324	21.4%
Commissions and brokers fees, net	1,096	722	374	51.8%
Remittance processing	3,392	2,845		