FIRST BUSEY CORP /NV/
Form 10-Q
November 07, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 9/30/2018

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada (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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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.

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

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 November 7, 2018
Common Stock, $.001 par value	48,860,557

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FIRST BUSEY CORPORATION

FORM 10-Q

September 30, 2018

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and December 31, 2017

(Unaudited)

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Assets		
Cash and cash equivalents (interest-bearing 2018 $52,390; 2017 $234,889)	$ 160,652	$ 353,272
Securities available for sale	863,381	872,682
Securities held to maturity	626,250	443,550
Securities equity investments	7,317	5,378
Loans held for sale	32,617	94,848
Portfolio loans (net of allowance for loan losses 2018 $52,743; 2017 $53,582)	5,570,998	5,465,918
Premises and equipment, net	119,162	116,913
Goodwill	267,685	269,346
Other intangible assets, net	34,278	38,727
Cash surrender value of bank owned life insurance	127,663	126,737
Deferred tax asset, net	16,431	17,296
Other assets	62,951	55,973
Total assets	$ 7,889,385	$ 7,860,640
Liabilities and Stockholders’ Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 1,438,054	$ 1,597,421
Interest-bearing	4,757,515	4,528,544
Total deposits	$ 6,195,569	$ 6,125,965
Securities sold under agreements to repurchase	255,906	304,566
Short-term borrowings	200,000	220,000
Long-term debt	50,000	50,000
Senior notes, net of unamortized issuance costs	39,505	39,404
Subordinated notes, net of unamortized issuance costs	59,121	64,715
Junior subordinated debt owed to unconsolidated trusts	71,118	71,008
Other liabilities	46,026	49,979
Total liabilities	$ 6,917,245	$ 6,925,637
Commitments and contingencies (see Note 13)		
Stockholders’ Equity		
Common stock, $.001 par value, authorized 66,666,667 shares; shares issued 2018 and 2017 49,185,581	49	49
Additional paid-in capital	1,079,111	1,084,889

Accumulated deficit	(87,532)	(132,122)
Accumulated other comprehensive loss	(13,024)	(2,810)
Total stockholders' equity before treasury stock	$ 978,604	$ 950,006
Common stock shares held in treasury at cost, 2018 325,272; 2017 500,638	(6,464)	(15,003)
Total stockholders' equity	$ 972,140	$ 935,003
Total liabilities and stockholders' equity	$ 7,889,385	$ 7,860,640
Common shares outstanding at period end	48,860,309	48,684,943

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	$ 186,839	$ 138,595
Interest and dividends on investment securities:		
Taxable interest income	21,250	12,339
Non-taxable interest income	3,630	2,521
Total interest income	211,719	153,455
Interest expense:		
Deposits	21,837	8,058
Federal funds purchased and securities sold under agreements to repurchase	1,139	618
Short-term borrowings	1,257	521
Long-term debt	622	421
Senior notes	1,199	562
Subordinated notes	2,379	1,098
Junior subordinated debt owed to unconsolidated trusts	2,383	1,857
Total interest expense	30,816	13,135
Net interest income	180,903	140,320
Provision for loan losses	4,024	2,494
Net interest income after provision for loan losses	176,879	137,826
Non-interest income:		
Trust fees	20,573	17,088
Commissions and brokers' fees, net	2,860	2,239
Remittance processing	10,588	8,581
Fees for customer services	21,576	18,658
Mortgage revenue	4,488	8,430
Security gains, net	160	1,143
Other income	6,896	4,774
Total non-interest income	67,141	60,913
Non-interest expense:		
Salaries, wages and employee benefits	80,315	67,448
Net occupancy expense of premises	11,271	10,025
Furniture and equipment expenses	5,418	5,123
Data processing	12,391	11,348
Amortization of intangible assets	4,450	3,675
Other expense	30,429	23,707
Total non-interest expense	144,274	121,326
Income before income taxes	99,746	77,413
Income taxes	26,108	26,980

Net income	$ 73,638	$ 50,433
Basic earnings per common share	$ 1.51	$ 1.24
Diluted earnings per common share	$ 1.50	$ 1.23
Dividends declared per share of common stock	$ 0.60	$ 0.54

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended September 30, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	$ 63,589	$ 56,762
Interest and dividends on investment securities:		
Taxable interest income	8,006	4,689
Non-taxable interest income	1,166	1,068
Total interest income	72,761	62,519
Interest expense:		
Deposits	8,946	3,851
Federal funds purchased and securities sold under agreements to repurchase	426	291
Short-term borrowings	324	447
Long-term debt	245	141
Senior notes	400	400
Subordinated notes	792	799
Junior subordinated debt owed to unconsolidated trusts	854	649
Total interest expense	11,987	6,578
Net interest income	60,774	55,941
Provision for loan losses	758	1,494
Net interest income after provision for loan losses	60,016	54,447
Non-interest income:		
Trust fees	6,324	5,071
Commissions and brokers’ fees, net	881	766
Remittance processing	3,630	2,877
Fees for customer services	7,340	6,577
Mortgage revenue	1,272	3,526
Security gains, net	—	290
Other income	2,406	1,730
Total non-interest income	21,853	20,837
Non-interest expense:		
Salaries, wages and employee benefits	26,024	25,497
Net occupancy expense of premises	3,761	3,714
Furniture and equipment expenses	1,715	1,785
Data processing	4,016	5,113
Amortization of intangible assets	1,445	1,286
Other expense	8,968	9,544
Total non-interest expense	45,929	46,939
Income before income taxes	35,940	28,345
Income taxes	9,081	9,561

Net income	$ 26,859	$ 18,784
Basic earnings per common share	$ 0.55	$ 0.41
Diluted earnings per common share	$ 0.55	$ 0.41
Dividends declared per share of common stock	$ 0.20	$ 0.18

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Net income	$ 26,859	$ 18,784	$ 73,638	$ 50,433
Other comprehensive (loss) income, before tax:				
Securities available for sale:				
Unrealized net (losses) gains on securities:				
Unrealized net holding (losses) gains arising during period	(3,020)	563	(13,280)	1,864
Reclassification adjustment for gains included in net income	—	(290)	(160)	(1,143)
Other comprehensive (loss) income, before tax	(3,020)	273	(13,440)	721
Income tax (benefit) expense related to items of other comprehensive income	(861)	119	(3,831)	298
Other comprehensive (loss) income, net of tax	(2,159)	154	(9,609)	423
Comprehensive income	$ 24,700	$ 18,938	$ 64,029	$ 50,856

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited)

(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Income (loss)	Treasury Stock	Total
Balance, December 31, 2016	$ 39	$ 781,716	$ (163,689)	$ 36	$ (23,788)	$ 594,314
Net income	—	—	50,433	—	—	50,433
Other comprehensive loss	—	—	—	423	—	423
Issuance of treasury stock for employee stock purchase plan	—	(452)	—	—	841	389
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit	—	(5,221)	—	—	4,862	(359)
Net issuance of stock options exercised net of shares redeemed	—	(923)	—	—	1,088	165
Stock issued for acquisition of First Community, net of stock issuance costs	7	211,575	—	—	—	211,582
Cash dividends common stock at $0.54 per share	—	—	(21,944)	—	—	(21,944)
Stock dividend equivalents restricted stock units at $0.54 per share	—	342	(342)	—	—	—
Stock dividend accrued on restricted stock awards assumed with the Pulaski Financial Corp. ("Pulaski") acquisition at $0.54 per	—	—	(10)	—	—	(10)

share						
Return of 28,648 equity trust shares	—	—	—	—	(860)	(860)
Stock based employee compensation	—	1,935	—	—	—	1,935
Balance, September 30, 2017	$ 46	$ 988,972	$ (135,552)	$ 459	$ (17,857)	$ 836,068
Balance, December 31, 2017	$ 49	$ 1,084,889	$ (132,122)	$ (2,810)	$ (15,003)	$ 935,003
Net income	—	—	73,638	—	—	73,638
Other comprehensive loss	—	—	—	(9,609)	—	(9,609)
Tax Cuts and Jobs Act (“TCJA”) of 2017 reclassification	—	—	605	(605)	—	—
Issuance of treasury stock for employee stock purchase plan	—	(295)	—	—	724	429
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit	—	(6,059)	—	—	4,924	(1,135)
Net issuance of stock options exercised net of shares redeemed	—	(2,505)	—	—	2,891	386
Cash dividends common stock at $0.60 per share	—	—	(29,238)	—	—	(29,238)
Stock dividend equivalents restricted stock units at $0.60 per share	—	415	(415)	—	—	—
Stock-based compensation	—	2,666	—	—	—	2,666
Balance, September 30, 2018	$ 49	$ 1,079,111	$ (87,532)	$ (13,024)	$ (6,464)	$ 972,140

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 73,638	$ 50,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	2,666	1,935
Depreciation	7,158	6,084
Amortization of intangible assets	4,450	3,675
Premises and equipment impairment	817	—
Provision for loan losses	4,024	2,494
Provision for deferred income taxes	4,696	(3,480)
Amortization of security premiums and discounts, net	6,545	4,172
Accretion of premiums and discounts on time deposits and trust preferred securities, net	(82)	(232)
Accretion of premiums and discounts on portfolio loans, net	(8,615)	(6,329)
Security gains, net	(160)	(1,143)
Change in equity securities, net	(2,699)	—
Gain on sales of mortgage loans, net of origination costs	(7,805)	(36,911)
Mortgage loans originated for sale	(336,169)	(1,166,083)
Proceeds from sales of mortgage loans	406,205	1,314,779
Net losses (gains) on disposition of premises and equipment	186	(57)
Increase in cash surrender value of bank owned life insurance	(926)	(1,604)
Change in assets and liabilities:		
(Increase) decrease in other assets	(3,627)	14,049
Decrease in other liabilities	(7,215)	(5,513)
Increase in interest payable	1,849	1,650
Decrease in income taxes receivable	2,200	1,435
Net cash provided by operating activities	$ 147,136	$ 179,354
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	—	134,515
Proceeds from sales of securities classified equity	920	—
Proceeds from maturities of securities classified available for sale	115,522	154,435
Proceeds from sales of securities classified held to maturity	31,815	—
Proceeds from maturities of securities classified held to maturity	—	6,358
Purchases of securities classified available for sale	(122,954)	(128,425)
Purchases of securities classified held to maturity	(217,767)	(185,201)
Net increase in loans	(104,195)	(98,040)
Proceeds from disposition of premises and equipment	26	622
Proceeds from sale of other real estate owned ("OREO") properties	4,275	4,069

Purchases of premises and equipment	(10,436)	(11,336)
Proceeds (purchases) from the redemption of Federal Home Loan Bank ("FHLB") stock, net	(2,611)	4,322
Net cash received in acquisitions	—	29,947
Net cash used in investing activities	$ (305,405)	$ (88,734)

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	2018	2017
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net increase (decrease) in certificates of deposit	$ 216,313	$ (92,596)
Net increase in demand deposits, money market and savings accounts	(146,517)	(42,414)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(48,660)	4,443
Proceeds from short-term borrowings, net	—	53,150
Repayment of long-term advances	(5,500)	(39,800)
Net proceeds from issuance of senior debt	—	39,326
Net proceeds from issuance of subordinated debt	—	58,986
Cash dividends paid	(29,238)	(21,971)
Proceeds from FHLB long term advances, net	(20,000)	—
Value of shares surrendered upon vesting to satisfy tax withholding obligations of stock-based compensation	(1,136)	(1,975)
Proceeds from stock options exercised	387	165
Common stock issuance costs	—	(259)
Net cash (used in) financing activities	(34,351)	(42,945)
Net increase (decrease) in cash and cash equivalents	(192,620)	47,675
Cash and cash equivalents, beginning of period	353,272	166,706
Cash and cash equivalents, ending of period	$ 160,652	$ 214,381
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Payments for:		
Interest	$ 26,665	$ 11,485
Income taxes	20,127	19,369
Non-cash Investing and Financing Activities:		
Other real estate acquired in settlement of loans	3,706	477

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Accounting Policies

Basis of Financial Statement Presentation

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

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

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

We have also considered the impact of subsequent events on these unaudited Consolidated Financial Statements. On October 12, 2018 a return of capital and associated surplus to the Company from Busey Bank was executed as discussed in "Note 14: Capital" with no impact to capital for the unaudited Consolidated Financial Statements. In addition, on November 1, 2018, Busey Trust Company was merged with and into Busey Bank, with no impact to the unaudited Consolidated Financial Statements. Other than these events, there were no significant subsequent events for the quarter ended September 30, 2018 through the issuance date of these unaudited Consolidated Financial Statements that warranted adjustment to or disclosure in the unaudited Consolidated Financial Statements.

Use of Estimates

In preparing the accompanying unaudited Consolidated Financial Statements, the Company's management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Financial Statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the fair value of available for sale investment securities, the fair value of assets acquired and liabilities assumed in business combinations and the determination of the allowance for loan losses.

Recently Issued Accounting Standards

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

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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. The adoption of this guidance on January 1, 2018 did not change the method in which non-interest income is recognized therefore a cumulative effect adjustment to retained earnings was not necessary.

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

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

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

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

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

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

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

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

ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 removes, modifies, and adds certain disclosure requirements on fair value measurements. This guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The guidance has no impact on the Company’s Consolidated Financial Statements and is not expected to have a material impact on the Company’s required disclosures.

Note 2: Acquisitions

First Community Financial Partners, Inc.

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

Under the terms of the merger agreement with First Community, at the effective time of the acquisition, each share of First Community common stock issued and outstanding was converted into the right to receive 0.396 shares of the Company's common stock, cash in lieu of fractional shares and $1.35 cash consideration per share. The market value of the 7.2 million shares of First Busey common stock issued at the effective time of the acquisition was approximately $211.1 million based on First Busey's closing stock price of $29.32 on June 30, 2017. In addition, certain options to purchase shares of First Community common stock that were outstanding at the acquisition date were converted into options to purchase shares of First Busey common stock, adjusted for the 0.44 option exchange ratio, and the fair value was included in the purchase price. Further, the purchase price included cash payouts relating to unconverted stock options and restricted stock units outstanding as of the acquisition date.

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

First Busey did not incur any expenses related to the acquisition of First Community for the three months ended September 30, 2018. First Busey incurred $0.1 million in pre-tax expenses related to the acquisition of First Community for the nine months ended September 30, 2018, primarily for professional and legal fees. First Busey incurred $2.9 million and $3.7 million in pre-tax expenses related to the acquisition of First Community for the three and nine months ended September 30, 2017, respectively, primarily for professional and legal fees, data processing conversion expenses and restructuring expenses, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

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

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

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification ("ASC") 310-20, Receivables-Nonrefundable Fees and Other Costs, and were subsequently considered as part of the Company’s determination of the adequacy of the allowance for loan losses. Purchased credit-impaired (“PCI”) loans were accounted for under ASC 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality. As of the acquisition date, the aggregate principal outstanding and aggregate fair value of the acquired performing loans, including loans held for sale, totaled $1.1 billion. The difference between the aggregate principal balance outstanding and aggregate fair value of $14.4 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $17.9 million and the aggregate fair value of PCI loans totaled $12.5 million, which became such loans’ new carrying value. At September 30, 2018, PCI loans related to this transaction with a carrying value of $2.7 million were outstanding, with the decrease relating to collections and a loan sale.

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For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.6 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method; however, $0.2 million of the accretable yield was accelerated in 2017 as a result of collections of PCI loan balances so the full balance will be recognized by December 2018.

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

	Pro Forma Nine Months Ended September 30, 2017
Total revenues (net interest income plus non-interest income)	$ 231,301
Net income	56,348
Diluted earnings per common share	1.23

Mid Illinois Bancorp, Inc.

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

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at their estimated fair values on the date of acquisition. An adjustment to the fair value was recorded in the first quarter of 2018 as additional information became available. 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 did not incur any expenses related to the acquisition of Mid Illinois for the three months ended September 30, 2018. First Busey incurred $3.1 million of pre-tax expenses related to the acquisition of Mid Illinois for the nine months ended September 30, 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 $0.2 million and $0.4 million in pre-tax expenses related to the acquisition of Mid Illinois for the three and nine months ended September 30, 2017, respectively, primarily for legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

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

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

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

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

The Banc Ed Corp.

On August 21, 2018, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with The Banc Ed Corp., a Delaware corporation ("Banc Ed"), pursuant to which Banc Ed will merge into First Busey, with First Busey as the surviving corporation (the "Merger"). It is anticipated that TheBANK of Edwardsville, Banc Ed's wholly-owned bank subsidiary ("TheBANK"), will be merged with and into First Busey's bank subsidiary, Busey Bank, at a date following the completion of the holding company merger. At the time of the bank merger, TheBANK's banking offices will become branches of Busey Bank. The Merger is anticipated to be completed in the fourth quarter of 2018 or early in the first quarter of 2019, and is subject to the satisfaction of customary closing conditions in the Merger Agreement and the approval of the appropriate regulatory authorities and of the stockholders of Banc Ed. As of September 30, 2018, Banc Ed had total consolidated assets of $1.8 billion, total loans of $914.5 million and total deposits of $1.6 billion.

TheBANK was founded in 1868 and is a privately held commercial bank headquartered in Edwardsville, Illinois. The partnership will enhance First Busey's existing deposit, commercial banking and wealth management presence in the greater St. Louis Missouri-Illinois Metropolitan Statistical Area. Under the terms of the Merger Agreement, Banc Ed stockholders will have the right to receive 8.2067 shares of common stock of First Busey and $111.53 in cash for each share of common stock of Banc Ed, with total consideration to consist of approximately 70% stock and 30% cash. Please reference the Company's Form 8-K, filed on August 22, 2018 for additional information regarding our pending acquisition of Banc Ed.

This transaction will be accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged will be recorded at estimated fair values on the date of acquisition. Fair values are subject to refinement for up to one year after the closing date.

First Busey incurred $0.2 million in pre-tax expenses related to the planned acquisition of Banc Ed for the three and nine months ended September 30, 2018, primarily for legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements. The operating results of Banc Ed and TheBANK are not included in the accompanying unaudited Consolidated Financial Statements.

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Note 3: Securities

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

September 30, 2018:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury securities	$ 61,066	$ —	$ (1,212)	$ 59,854
Obligations of U.S. government corporations and agencies	91,767	5	(2,106)	89,666
Obligations of states and political subdivisions	245,459	315	(3,849)	241,925
Residential mortgage-backed securities	342,421	207	(11,046)	331,582
Corporate debt securities	140,884	19	(549)	140,354
Total	$ 881,597	$ 546	$ (18,762)	$ 863,381
Held to maturity				
Obligations of states and political subdivisions	$ 36,689	$ 13	$ (301)	$ 36,401
Commercial mortgage-backed securities	60,172	—	(1,705)	58,467
Residential mortgage-backed securities	529,389	—	(12,955)	516,434
Total	$ 626,250	$ 13	$ (14,961)	$ 611,302

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

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on factors including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations or other similar factors. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. Securities classified as held to maturity are those debt securities that the Company intends to hold to maturity. Accordingly, they are carried at cost, adjusted for amortization of premiums and accretion of discounts.

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The Company held equity securities, consisting of money market mutual funds, with fair values of $7.3 million at September 30, 2018. The Company held equity securities, consisting of common stock and money market mutual funds, with fair values of $0.8 million and $4.6 million, respectively, at December 31, 2017. The Company recorded $0.1 million of unrealized losses in non-interest income in the accompanying unaudited Consolidated Financial Statements during the nine months ended September 30, 2018, related to the change in fair value of the common stock. The common stock was sold in the second quarter of 2018 and realized security gains recorded during the nine months ended September 30, 2018 were $0.2 million.

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

	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 86,344	$ 86,041	$ 9,858	$ 9,837
Due after one year through five years	335,204	330,511	56,077	54,998
Due after five years through ten years	152,272	149,199	29,754	28,867
Due after ten years	307,777	297,630	530,561	517,600
Total	$ 881,597	$ 863,381	$ 626,250	$ 611,302

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross security gains	$ —	$ 290	$ —	$ 1,259
Gross security (losses)	—	—	—	(116)
Security gains, net(1)	$ —	$ 290	$ —	$ 1,143

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

The tax provision for the net realized gains and losses was $0.1 million for the three months ended September 30, 2017. The tax provision for the net realized gains and losses was $0.4 million for the nine months ended September 30, 2017.

Investment securities with carrying amounts of $598.7 million and $638.2 million on September 30, 2018 and December 31, 2017, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

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Information pertaining to securities with gross unrealized losses at September 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (dollars in thousands):

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
September 30, 2018:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U.S. Treasury securities	$ 35,883	$ (471)	$ 23,971	$ (741)	$ 59,854	$ (1,212)
Obligations of U.S. government corporations and agencies	29,899	(707)	58,946	(1,399)	88,845	(2,106)
Obligations of states and political subdivisions	186,959	(3,067)	36,612	(782)	223,571	(3,849)
Residential mortgage-backed securities	204,979	(5,089)	114,013	(5,957)	318,992	(11,046)
Corporate debt securities	138,019	(546)	47	(3)	138,066	(549)
Total temporarily impaired securities	$ 595,739	$ (9,880)	$ 233,589	$ (8,882)	$ 829,328	$ (18,762)
Held to maturity						
Obligations of states and political subdivisions	$ 31,932	$ (284)	$ 911	$ (17)	$ 32,843	$ (301)
Commercial mortgage-backed securities	49,853	(1,385)	8,614	(320)	58,467	(1,705)
Residential mortgage-backed securities	449,798	(9,550)	66,636	(3,405)	516,434	(12,955)
Total temporarily impaired securities	$ 531,583	$ (11,219)	$ 76,161	$ (3,742)	$ 607,744	$ (14,961)

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
December 31, 2017:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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)
	162,213	(1,027)	12,045	(150)	174,258	(1,177)

Obligations of states and political subdivisions						
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 September 30, 2018 was 897, and represented an unrealized loss of 2.29% of the aggregate carrying value. As of September 30, 2018, the Company does not intend to sell such securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be OTTI at September 30, 2018.

The Company had available for sale obligations of state and political subdivisions with a fair value of $241.9 million and $280.2 million as of September 30, 2018 and December 31, 2017, respectively. In addition, the Company had held to maturity obligations of state and political subdivisions with a fair value of $36.4 million and $41.5 million as of September 30, 2018 and December 31, 2017, respectively.

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As of September 30, 2018, the fair value of the Company's obligations of state and political subdivisions portfolio was comprised of $236.2 million of general obligation bonds and $42.1 million of revenue bonds issued by 386 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 35 states, including nine states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 20 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):

September 30, 2018:				Average Exposure
	Number of	Amortized	Fair	Per Issuer
U.S. State	Issuers	Cost	Value	(Fair Value)
Illinois	89	$ 87,902	$ 86,739	$ 975
Wisconsin	27	18,971	18,690	692
Texas	43	24,893	24,431	568
Michigan	25	13,589	13,620	545
Ohio	20	14,665	14,505	725
Pennsylvania	15	9,250	9,197	613
New Jersey	12	5,576	5,525	460
Missouri	9	5,556	5,472	608
California	7	8,829	8,765	1,252
Other	85	50,153	49,223	579
Total general obligations bonds	332	$ 239,384	$ 236,167	$ 711

December 31, 2017:				Average Exposure
	Number of	Amortized	Fair	Per Issuer
U.S. State	Issuers	Cost	Value	(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 $4.9 million and $4.0 million being the largest exposure to a single issuer at September 30, 2018 and December 31, 2017, respectively. Accordingly, as of September 30, 2018 and December 31, 2017, the Company did not hold general obligation bonds of any single issuer, the aggregate

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book or market value of which exceeded 10% of the Company’s stockholders’ equity. Of the general obligation bonds in the Company’s portfolio, 99.1% had been rated by at least one nationally recognized rating organization and 0.9% were unrated as of September 30, 2018. Of the general obligation bonds in the Company’s portfolio, 99.3% had been rated by at least one nationally recognized rating organization and 0.7% were unrated, based on the aggregate fair value as of 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):

September 30, 2018:				Average Exposure
	Number of	Amortized	Fair	Per Issuer
U.S. State	Issuers	Cost	Value	(Fair Value)
Indiana	13	$ 10,902	$ 10,801	$ 831
Missouri	5	7,041	6,966	1,393
Illinois	5	5,218	5,128	1,026
Other	31	19,603	19,264	621
Total revenue bonds	54	$ 42,764	$ 42,159	$ 781

December 31, 2017:				Average Exposure
	Number of	Amortized	Fair	Per Issuer
U.S. State	Issuers	Cost	Value	(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 September 30, 2018 and December 31, 2017, respectively. Accordingly, as of September 30, 2018 and December 31, 2017, the Company did not hold revenue bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company’s stockholders’ equity. Of the revenue bonds in the Company's portfolio, 100.0% had been rated by at least one nationally recognized rating organization as of September 30, 2018. Of the revenue bonds in the Company’s portfolio, 99.4% had been rated by at least one nationally recognized rating organization and 0.6% were unrated, based on the fair value as of December 31, 2017. Some of the primary types of revenue bonds held in the Company’s portfolio include: primary education or government building lease rentals secured by ad valorem taxes, utility systems secured by utility system net revenues, housing authorities secured by mortgage loans or principal receipts on mortgage loans, secondary education secured by student fees/tuitions, and pooled issuances (i.e. bond bank) consisting of multiple underlying municipal obligors.

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

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

Note 4: Loans held for sale

Loans held for sale totaled $32.6 million and $94.8 million at September 30, 2018 and December 31, 2017, respectively. The amount of loans held for sale decreased from December 31, 2017, due to lower origination volumes and the timing of sales. Loans held for sale generate net interest income until loans are delivered to investors, at which point mortgage revenue will be recognized.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Premiums received on sales of mortgage loans, including fair value adjustments	$ 2,794	$ 11,366	$ 9,779	$ 33,582
Less direct origination costs	(1,976)	(8,398)	(6,805)	(26,433)
Less provisions to liability for loans sold	(47)	(25)	(156)	(200)
Mortgage servicing revenues, net of servicing expense	501	583	1,670	1,481
Mortgage revenue	$ 1,272	$ 3,526	$ 4,488	$ 8,430

Note 5: Portfolio loans

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

	September 30, 2018	December 31, 2017
Commercial	$ 1,461,186	$ 1,414,631
Commercial real estate	2,371,868	2,354,684

Real estate construction	308,762	261,506
Retail real estate	1,453,266	1,460,801
Retail other	28,659	27,878
Portfolio loans	$ 5,623,741	$ 5,519,500
Less allowance for loan losses	52,743	53,582
Portfolio loans, net	$ 5,570,998	$ 5,465,918

Net deferred loan origination costs included in the table above were $5.6 million as of September 30, 2018 and $4.1 million as of December 31, 2017. Net accretable purchase accounting adjustments included in the table above reduced loans by $15.8 million as of September 30, 2018 and $23.6 million as of December 31, 2017.

The Company believes that making sound loans is a necessary and desirable means of employing funds available for investment. 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 originated outside of these areas are generally residential mortgage loans originated for sale in the secondary market or are loans to existing customers of the Bank.

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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 were 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:

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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.

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- 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 $5.4 billion and $5.3 billion at September 30, 2018 and December 31, 2017, respectively. Portfolio loans in the lowest grades, represented by the special mention, substandard and doubtful categories, totaled $279.0 million at September 30, 2018, compared to $193.8 million at December 31, 2017.

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

	September 30, 2018				
	Pass	Watch	Special Mention	Substandard	Doubtful
Commercial	$ 1,205,074	$ 136,262	$ 51,840	$ 48,266	$ 20,994
Commercial real estate	2,098,441	146,634	76,941	46,267	13,417
Real estate construction	289,134	14,977	3,110	1,923	21
Retail real estate	1,427,792	4,162	4,613	5,690	5,931
Retail other	28,919	—	—	—	32
Total	$ 5,049,360	$ 302,035	$ 136,504	$ 102,146	$ 40,395

	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.

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

	September 30, 2018			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+Days	Loans
Commercial	$ 284	$ 13	$ 100	$ 20,994
Commercial real estate	1,123	86	—	13,417
Real estate construction	280	651	—	21
Retail real estate	4,111	1,478	264	5,931
Retail other	157	6	—	32
Total	$ 5,955	$ 2,234	$ 364	$ 40,395

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

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

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

The gross interest income that would have been recorded in the three and nine months ended September 30, 2018 if impaired loans had been current in accordance with their original terms was $0.4 million and $1.1 million, respectively. The gross interest income that would have been recorded in the three and nine months ended September 30, 2017 if impaired loans had been current in accordance with their original terms was $0.4 million and $0.9 million, respectively. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three and nine months ended September 30, 2018 and 2017.

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

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

	September 30, 2018	December 31, 2017
In compliance with modified terms	$ 8,695	$ 9,873
30 — 89 days past due	—	108
Included in non-performing loans	1,541	1,919
Total	$ 10,236	$ 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 loans classified as TDRs during the three months ended September 30, 2018. Loans classified as TDRs during the nine months ended September 30, 2018 included one retail real estate modification for short-term interest rate relief, with a recorded investment of $0.1 million.

Loans classified as TDRs during the three months ended September 30, 2017 included one retail real estate modification for short-term interest rate relief, with a recorded investment of $0.2 million.   Loans classified as TDRs during the nine months ended September 30, 2017 included one commercial modification for short-term principal payment relief, with a recorded investment of $1.7 million, and two retail real estate modifications for short-term interest rate relief, with a recorded investment of $0.5 million.

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

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

There were no TDRs that were entered into during the prior twelve months that were subsequently classified as non-performing and had payment defaults during the three and nine months ended September 30, 2017.

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The following tables provide details of loans identified as impaired, 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).

	September 30, 2018					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 24,479	$ 9,518	$ 11,713	$ 21,231	$ 3,691	$ 11,395
Commercial real estate	19,994	12,851	6,197	19,048	1,572	18,528
Real estate construction	429	405	—	405	—	826
Retail real estate	13,395	12,103	100	12,203	100	14,361
Retail other	117	32	—	32	—	43
Total	$ 58,414	$ 34,909	$ 18,010	$ 52,919	$ 5,363	$ 45,153

	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 by segmenting loans geographically, by product type and by risk classification. 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 September 30, 2018 and December 31, 2017.

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

The Company's component for adversely graded loans attempts to quantify the additional risk of loss inherent in the special mention and substandard portfolios. The substandard portfolio has an additional allocation of 3.0% placed on such loans, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall

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historical charge-offs. As of September 30, 2018, the Company believed this reserve remained adequate. Special mention loans have an additional allocation of 1.0% placed on such loans, which is an estimate of the additional loss inherent in these loan grades. As of September 30, 2018, the Company believed this reserve remained adequate.

The specific portion of the Company's allowance relates to loans that are impaired, which includes non-performing loans, TDRs and other loans determined to be impaired. Impaired loans are excluded from the determination of the general allowance for non-impaired loans and are allocated specific reserves as discussed above.

Impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Collateral values are estimated using a combination of observable inputs, including recent appraisals discounted for collateral specific changes and current market conditions, and unobservable inputs based on customized discounting criteria.

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

The Company holds acquired loans from business combinations with uncollected principal balances. These loans are carried net of a fair value adjustment for credit risk and interest rates and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. As the acquired loans renew, it is generally necessary to establish an allowance, which represents an amount that, in management's opinion, will be adequate to absorb probable credit losses in such loans. The balance of all acquired loans as of September 30, 2018 totaled approximately $1.3 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 September 30, 2018		
Commercial	Real Estate	Retail Real

	Commercial	Real Estate	Construction	Estate	Retail Other	Total
Beginning balance	$ 17,586	$ 23,047	$ 2,915	$ 9,293	$ 464	$ 53,305
Provision for loan losses	2,388	(1,291)	(15)	(399)	75	758
Charged-off	(1,144)	(62)	—	(695)	(286)	(2,187)
Recoveries	136	58	32	423	218	867
Ending balance	$ 18,966	$ 21,752	$ 2,932	$ 8,622	$ 471	$ 52,743

	As of and for the Nine Months Ended September 30, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 14,779	$ 21,813	$ 2,861	$ 13,783	$ 346	$ 53,582
Provision for loan losses	7,111	1,154	22	(4,609)	346	4,024
Charged-off	(3,841)	(1,487)	(97)	(1,637)	(608)	(7,670)
Recoveries	917	272	146	1,085	387	2,807
Ending balance	$ 18,966	$ 21,752	$ 2,932	$ 8,622	$ 471	$ 52,743

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	As of and for the Three Months Ended September 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201
Provision for loan losses	336	418	64	654	22	1,494
Charged-off	(60)	(69)	—	(482)	(74)	(685)
Recoveries	318	403	36	223	45	1,025
Ending balance	$ 13,522	$ 20,876	$ 2,261	$ 14,076	$ 300	$ 51,035

	As of and for the Nine Months Ended September 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,303	$ 20,623	$ 1,870	$ 11,648	$ 351	$ 47,795
Provision for loan losses	(1,885)	1,477	1	2,894	7	2,494
Charged-off	(241)	(1,758)	(48)	(1,574)	(257)	(3,878)
Recoveries	2,345	534	438	1,108	199	4,624
Ending balance	$ 13,522	$ 20,876	$ 2,261	$ 14,076	$ 300	$ 51,035

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

	As of September 30, 2018					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individually evaluated for impairment	$ 3,691	$ 1,572	$ —	$ 100	$ —	$ 5,363
Loans collectively evaluated for impairment	15,275	20,180	2,932	8,522	471	47,380
Ending balance	$ 18,966	$ 21,752	$ 2,932	$ 8,622	$ 471	$ 52,743
Loans:						
Loans individually evaluated for	$ 20,807	$ 16,752	$ 405	$ 12,047	$ 32	$ 50,043

impairment						
Loans collectively evaluated for impairment	1,439,955	2,352,820	308,357	1,441,063	28,627	5,570,822
PCI loans evaluated for impairment	424	2,296	—	156	—	2,876
Ending balance	$ 1,461,186	$ 2,371,868	$ 308,762	$ 1,453,266	$ 28,659	$ 5,623,741

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

Note 6: OREO

OREO represents properties acquired through foreclosure or other proceedings in settlement of loans and is included in other assets in the accompanying Consolidated Balance Sheets. OREO is held for sale and is recorded at the date of foreclosure at the fair value of the properties less estimated costs of disposal, which establishes a new cost basis. Any adjustment to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Properties are evaluated regularly to ensure each recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount due to subsequent declines in fair value less estimated costs to dispose are recorded as necessary. Revenue, expense, gains and losses from the operations of foreclosed assets are included in operations. At September 30, 2018, the Company held $0.2 million in commercial OREO, $0.9 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 September 30, 2018 the Company had $2.4 million of residential real estate in the process of foreclosure.

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

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
OREO:		
Beginning balance	$ 1,283	$ 2,518
Additions, transfers from loans	3,706	1,417
Additions, fair value from First Community acquisition	—	722
Additions, fair value from Mid Illinois acquisition	—	60
Proceeds from sales of OREO	(4,275)	(5,024)
Gain on sales of OREO	397	1,632
Valuation allowance for OREO	(18)	(42)
Ending balance	$ 1,093	$ 1,283

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Note 7: Deposits

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

	September 30, 2018	December 31, 2017
Demand deposits, noninterest-bearing	$ 1,438,054	$ 1,597,421
Interest-bearing transaction deposits	1,325,702	1,166,170
Saving deposits and money market deposits	1,879,530	2,026,212
Time deposits	1,552,283	1,336,162
Total	$ 6,195,569	$ 6,125,965

The Company held brokered interest-bearing transaction deposits of $5.0 million at September 30, 2018 and December 31, 2017. The Company held brokered saving deposits and money market deposits of $30.0 million and $75.1 million at September 30, 2018 and December 31, 2017, respectively.

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $655.7 million and $578.9 million at September 30, 2018 and December 31, 2017, respectively. The aggregate amount of time deposits with a minimum denomination that meets or exceeds the Federal Deposit Insurance Corporation (“FDIC”) insurance limit of $250,000 was approximately $249.7 million and $197.9 million at September 30, 2018 and December 31, 2017, respectively. The Company held brokered time deposits of $351.1 million and $247.7 million at September 30, 2018 and December 31, 2017, respectively.

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

October 1, 2018 – September 30, 2019	$ 1,087,015
October 1, 2019 – September 30, 2020	293,053
October 1, 2020 – September 30, 2021	58,166
October 1, 2021 – September 30, 2022	73,509
October 1, 2022 – September 30, 2023	40,524
Thereafter	16
	$ 1,552,283

Note 8: Borrowings

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

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

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

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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):

	September 30, 2018	December 31, 2017
Securities sold under agreements to repurchase		
Balance at end of period	$ 255,906	$ 304,566
Weighted average interest rate at end of period	0.85 %	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	$ 242,268	$ 213,527
Weighted average interest rate during period(1)	0.62 %	0.46 %
Short-term borrowings, FHLB advances		
Balance at end of period	$ 200,000	$ 220,000
Weighted average interest rate at end of period	2.24 %	1.42 %
Maximum outstanding at any month end in year-to-date period	$ 225,000	$ 234,600
Average daily balance for the year-to-date period	$ 93,022	$ 84,201
Weighted average interest rate during period(1)	1.73 %	1.20 %

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

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

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

As of September 30, 2018, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 2.01% to 2.18%. The weighted average rate on the long-term advances was 2.08% as of September 30, 2018. As of December 31, 2017, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 1.10% to 1.32%. The weighted average rate on the long-term advances was 1.19% as of December 31, 2017.

On May 25, 2017, the Company issued $40.0 million of 3.75% senior notes that mature on May 25, 2022. The senior notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017. Additionally, on May 25, 2017, the Company issued $60.0 million of fixed-to-floating rate subordinated notes that mature on May 25, 2027. The subordinated notes, which qualify as Tier 2 capital for First Busey, are at an initial rate of 4.75% for five years and thereafter at an annual floating rate equal to three-month LIBOR plus a spread of 2.919%.

The subordinated notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017 during the five year fixed-term and thereafter each February 25, May 25, August 25 and November 25 of each year, commencing on August 25, 2022. The subordinated notes have an optional redemption in whole or in part on any interest payment date on or after May 25, 2022. The senior notes and subordinated notes are unsecured obligations of the Company. Unamortized debt issuance costs related to the senior notes and subordinated notes totaled \$0.5 million and \$0.9 million, respectively, at September 30, 2018. Unamortized debt issuance costs related to the senior notes and subordinated notes totaled \$0.6 million and \$1.0 million, respectively, at December 31, 2017. The Company used the net proceeds from the offering to finance a portion of the cash consideration for its acquisition of First Community, to redeem a portion of First Community subordinated debentures in July 2017, and to finance a portion of the cash consideration for its acquisition of Mid Illinois in October 2017, with the remaining proceeds used for general corporate purposes.

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

Note 9: Junior Subordinated Debt Owed to Unconsolidated Trusts

First Busey maintains statutory trusts for the sole purpose of issuing and servicing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrent with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are instruments that qualify, and are treated by the Company, as Tier 1 regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment. In connection with the Pulaski acquisition in 2016, the Company acquired similar statutory trusts maintained by Pulaski and the fair value adjustment is being accreted over the weighted average remaining life. The Company had $71.1 million and $71.0 million of junior subordinated debt owed to unconsolidated trusts at September 30, 2018 and December 31, 2017, respectively.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at par value at the stated maturity date or upon redemption. Each trust’s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes. The Company’s obligations under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust’s obligations under the trust preferred securities issued by each 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 September 30, 2018, 100% of the trust preferred securities qualified as Tier 1 capital under the final rule adopted in March 2005.

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

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Note 10: Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income available to common stockholders	$ 26,859	$ 18,784	$ 73,638	$ 50,433
Shares:				
Weighted average common shares outstanding	48,892	45,324	48,828	40,669
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	355	440	388	400
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	49,247	45,764	49,216	41,069
Basic earnings per common share	$ 0.55	$ 0.41	$ 1.51	$ 1.24
Diluted earnings per common share	$ 0.55	$ 0.41	$ 1.50	$ 1.23

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

Diluted earnings per common share are computed using the treasury stock method and reflect the potential dilution that could occur if the Company's outstanding stock options and warrants were exercised and restricted stock units were vested. Stock options, warrants and restricted stock units for which the exercise or the grant price exceeds the average market price over the period have an anti-dilutive effect and are excluded from the calculation. At September 30, 2018, 172,571 outstanding restricted stock units and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents. At September 30, 2017, 78,540 outstanding options and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 11: Share-based Compensation

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

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

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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 September 30, 2018, the Company held 325,272 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 September 30, 2018 the Company had 333,334 shares that may still be purchased under the plan.

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

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

Stock Option Plan

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	213,428	$ 16.97	
Exercised	(85,518)	13.90	
Forfeited	(14,035)	21.81	
Expired	(2,762)	16.15	
Outstanding at end of period	111,113	$ 18.75	4.66
Exercisable at end of period	73,469	$ 16.30	2.87

The Company recorded $0.1 and $0.2 million in stock option compensation expense for the three and nine months ended September 30, 2018, respectively, related to the converted options from First Community. The Company recorded $0.1 million in stock option compensation expense for the three and nine months ended September 30, 2017. As of September 30, 2018, the Company had $0.2 million of unrecognized stock option expense. This cost is expected to be recognized over a period of 1.1 years.

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Restricted Stock Unit Plan

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

	Restricted Stock Units	Weighted-Average Grant Date Fair Value	Director Deferred Stock Units	Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	587,763	$ 22.68	42,411	$ 25.47
Reclass DSU to RSU	23,977	25.47	(23,977)	25.47
Granted	172,571	31.70	20,500	31.70
Dividend equivalents earned	11,870	31.05	1,669	30.98
Vested	(104,512)	16.40	(20,103)	29.74
Forfeited	(6,183)	24.84	—	—
Non-vested at end of period	685,486	$ 26.13	20,500	$ 27.97
Outstanding at end of period	685,486	$ 26.13	86,270	$ 22.41

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.

On August 1, 2018, under the terms of the 2010 Equity Incentive Plan, the Company granted 152,926 RSUs to members of management, and under the terms of the First Community 2016 Equity Incentive Plan, granted 12,545 RSUs to members of management who were legacy First Community employees. As the stock price on the grant date of August 1, 2018 was $31.70, total compensation cost to be recognized is $5.2 million. This cost will be recognized over a period of four to five years. Subsequent to the requisite service period, the awards will become 100% vested. Further, the Company granted 7,100 RSUs, under the terms of the 2010 Equity Incentive Plan, to the Chairman of the Board. As the stock price on the grant date of August 1, 2018 was $31.70, total compensation cost to be recognized is $0.2 million. This cost will be recognized over a period of five years. Subsequent to the requisite service period, the awards will become 100% vested.

On August 1, 2018, under the terms of the 2010 Equity Incentive Plan, the Company granted 17,500 DSUs to directors, and under the terms of the First Community 2016 Equity Incentive Plan, granted 1,500 DSUs to a director who was a legacy First Community director. In addition, under the terms of the 2010 Equity Incentive Plan, the Company granted 1,500 advisory DSUs to advisory directors. As the stock price on the grant date of August 1, 2018 was $31.70, total compensation cost to be recognized is $0.6 million. These costs will be recognized over the requisite service period of one year from the date of grant or the next Annual Meeting of Stockholders, whichever is earlier.

The Company recognized $0.9 million and $0.7 million of compensation expense related to non-vested RSUs and DSUs for the three months ended September 30, 2018 and 2017, respectively. The Company recognized $2.5 million and $1.9 million of compensation expense related to non-vested RSUs and DSUs for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was $12.0 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 3.8 years.

As of September 30, 2018, 740,943 shares remain available for issuance pursuant to the Company's 2010 Equity Incentive Plan, 75,674 shares remain available for issuance pursuant to the Company's Employee Stock Purchase Plan and 305,781 shares remain available for issuance pursuant to the First Community 2016 Equity Incentive Plan.

Note 12: Income Taxes

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

Note 13: Outstanding Commitments and Contingent Liabilities

Legal Matters

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

Credit Commitments and Contingencies

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

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

	September 30, 2018	December 31, 2017
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,296,406	$ 1,300,294
Standby letters of credit	33,244	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. These commitments may be secured based on management's credit evaluation of the borrower.

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 September 30, 2018 and December 31, 2017, no amounts were recorded as liabilities for the Company's potential obligations under these guarantees.

Note 14: Capital

The ability of the Company to pay cash dividends to its stockholders and to service its debt was historically dependent on the receipt of cash dividends from its subsidiaries. Under applicable regulatory requirements, an Illinois state-chartered bank such as Busey Bank may not pay dividends in excess of its net profits. Because Busey Bank had been in a retained earnings deficit position since 2009, it was not able to pay dividends. With prior approval from its regulators, however, an Illinois state-chartered bank in that situation was able to reduce its capital stock by amending its charter to decrease the authorized number of shares, and then make a subsequent distribution to its holding company. Using this approach, and with the approval of its regulators, Busey Bank has distributed funds to the Company, the most recent of which was $40.0 million on October 12, 2018. Busey Bank returned to positive retained earnings in the second quarter of 2018. The Company expects Busey Bank to return to paying dividends in future periods.

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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 September 30, 2018, the Company and Busey Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered "well capitalized."

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

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

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	Actual Amount	Ratio	Minimum Capital Requirement with Capital Buffer Amount	Ratio	Minimum To Be Well Capitalized Amount	Ratio
As of September 30, 2018:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 877,322	14.34 %	$ 603,990	9.875 %	$ 611,636	10.00 %
Busey Bank	$ 865,523	14.22 %	$ 600,987	9.875 %	$ 608,594	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 764,579	12.50 %	$ 481,663	7.875 %	$ 489,309	8.00 %
Busey Bank	$ 812,780	13.36 %	$ 479,268	7.875 %	$ 486,875	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 690,579	11.29 %	$ 389,918	6.375 %	$ 397,564	6.50 %
Busey Bank	$ 812,780	13.36 %	$ 387,979	6.375 %	$ 395,586	6.50 %
Tier 1 Capital (to Average Assets)						
Consolidated	$ 764,579	10.17 %	$ 300,787	4.00 %	N/A	N/A
Busey Bank	$ 812,780	10.84 %	$ 299,786	4.00 %	$ 374,733	5.00 %

	Actual Amount	Ratio	Minimum Capital Requirement with Capital Buffer Amount	Ratio	Minimum To Be Well Capitalized Amount	Ratio
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 837,183	14.15 %	$ 547,265	9.250 %	$ 591,638	10.00 %
Busey Bank	$ 704,807	12.78 %	$ 509,978	9.250 %	$ 551,327	10.00 %
South Side Bank	$ 84,914	22.61 %	$ 34,744	9.250 %	$ 37,561	10.00 %
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 718,101	12.14 %	$ 428,937	7.250 %	$ 473,310	8.00 %
Busey Bank	$ 651,432	11.82 %	$ 399,713	7.250 %	$ 441,062	8.00 %
South Side Bank	$ 84,707	22.55 %	$ 27,232	7.250 %	$ 30,049	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 644,633	10.90 %	$ 340,192	5.750 %	$ 384,565	6.50 %
Busey Bank	$ 651,432	11.82 %	$ 317,013	5.750 %	$ 358,363	6.50 %

South Side Bank	$ 84,707	22.55 %	$ 21,598	5.750 %	$ 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 %

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Note 15: Operating Segments and Related Information

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

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

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

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

	Goodwill		Total Assets	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Banking	$ 246,999	$ 248,660	$ 7,831,967	$ 7,809,738
Remittance Processing	8,992	8,992	37,809	34,646
Wealth Management	11,694	11,694	33,543	32,077
Other	—	—	(13,934)	(15,821)
Totals	$ 267,685	$ 269,346	$ 7,889,385	$ 7,860,640

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	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net interest income:				
Banking	$ 62,578	$ 57,589	$ 186,103	$ 143,496
Remittance Processing	17	15	49	44
Wealth Management	110	87	304	233
Other	(1,931)	(1,750)	(5,553)	(3,453)
Total net interest income	$ 60,774	$ 55,941	$ 180,903	$ 140,320
Non-interest income:				
Banking	$ 11,196	$ 12,338	$ 33,827	$ 33,550
Remittance Processing	4,042	3,032	11,812	9,061
Wealth Management	7,391	5,941	23,840	19,649
Other	(776)	(474)	(2,338)	(1,347)
Total non-interest income	$ 21,853	$ 20,837	$ 67,141	$ 60,913
Non-interest expense:				
Banking	$ 37,034	$ 38,697	$ 116,275	$ 97,318
Remittance Processing	2,718	2,190	7,808	6,476
Wealth Management	4,307	3,896	13,921	11,840
Other	1,870	2,156	6,270	5,692
Total non-interest expense	$ 45,929	$ 46,939	$ 144,274	$ 121,326
Income before income taxes:				
Banking	$ 35,982	$ 29,736	$ 99,631	$ 77,234
Remittance Processing	1,341	856	4,053	2,629
Wealth Management	3,194	2,132	10,223	8,042
Other	(4,577)	(4,379)	(14,161)	(10,492)
Total income before income taxes	$ 35,940	$ 28,345	$ 99,746	$ 77,413
Net income:				
Banking	$ 26,486	$ 18,942	$ 73,235	$ 49,546
Remittance Processing	957	505	2,896	1,567
Wealth Management	2,280	1,237	7,332	4,760
Other	(2,864)	(1,900)	(9,825)	(5,440)
Total net income	$ 26,859	$ 18,784	$ 73,638	$ 50,433

Note 16: Derivative Financial Instruments

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

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Interest Rate Lock Commitments. At September 30, 2018 and December 31, 2017, the Company had issued $50.4 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 September 30, 2018 and December 31, 2017, the Company had issued $82.3 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):