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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 3/31/2018

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

N/A

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

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

Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

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

Accelerated filer o
Smaller reporting company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Class	Outstanding at May 8, 2018
Common Stock, $.001 par value	48,723,534

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2018 and December 31, 2017

(Unaudited)

		March 31, 2018		December 31, 2017
		(dollars in thousands)		
Assets				
Cash and cash equivalents (interest-bearing 2018 $251,199; 2017 $234,889)	$	367,525	$	353,272
Securities available for sale		822,101		872,682
Securities held to maturity		459,007		443,550
Securities equity investments		5,028		5,378
Loans held for sale		29,034		94,848
Portfolio loans (net of allowance for loan losses 2018 $52,649; 2017 $53,582)		5,478,804		5,465,918
Premises and equipment, net		118,985		116,913
Goodwill		267,685		269,346
Other intangible assets, net		37,212		38,727
Cash surrender value of bank owned life insurance		127,463		126,737
Deferred tax asset, net		16,619		17,296
Other assets		49,283		55,973
Total assets	$	7,778,746	$	7,860,640
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	1,651,333	$	1,597,421
Interest-bearing		4,679,841		4,528,544
Total deposits	$	6,331,174	$	6,125,965
Securities sold under agreements to repurchase		235,311		304,566
Short-term borrowings				220,000
Long-term debt		50,000		50,000
Senior notes, net of unamortized issuance costs		39,438		39,404
Subordinated notes, net of unamortized issuance costs		64,684		64,715
Junior subordinated debt owed to unconsolidated trusts		71,044		71,008
Other liabilities		44,949		49,979
Total liabilities	$	6,836,600	$	6,925,637
Commitments and contingencies (See Note 14: Outstanding Commitments and Contingent Liabilities)				
Stockholders Equity				
Common stock, $.001 par value, authorized 66,666,667 shares; shares issued 2018 and 2017 49,185,581	$	49	$	49
Additional paid-in capital		1,084,411		1,084,889
Accumulated deficit		(119,467)		(132,122)
Accumulated other comprehensive loss		(9,674)		(2,810)
Total stockholders equity before treasury stock	$	955,319	$	950,006
Common stock shares held in treasury at cost, 2018 468,342; 2017 500,638		(13,173)		(15,003)
Total stockholders equity	$	942,146	$	935,003
Total liabilities and stockholders equity	$	7,778,746	$	7,860,640

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

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance, December 31, 2016	$ 39	$ 781,716	$ (163,689)	$ 36	$ (23,788)	$ 594,314
Net income			15,170			15,170
Other comprehensive loss				(171)		(171)
Issuance of treasury stock for employee stock purchase plan		(239)			439	200
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(1,017)			914	(103)
Net issuance of stock options exercised, net of shares redeemed		(681)			818	137
Cash dividends common stock at $0.18 per share			(6,879)			(6,879)
Stock dividend equivalents restricted stock units at $0.18 per share		103	(103)			
Stock dividend accrued on restricted stock awards assumed with the Pulaski Financial Corp. acquisition at $0.18 per share			(6)			(6)
Return of 28,648 equity trust shares					(860)	(860)
Stock-based compensation		545				545
Balance, March 31, 2017	$ 39	$ 780,427	$ (155,507)	$ (135)	$ (22,477)	$ 602,347
Balance, December 31, 2017	$ 49	$ 1,084,889	$ (132,122)	$ (2,810)	$ (15,003)	$ 935,003
Net income			21,917			21,917
Other comprehensive loss				(6,259)		(6,259)
Tax Cuts and Jobs Act (TCJA) of 2017 reclassification			605	(605)		
Issuance of treasury stock for employee stock purchase plan		(248)			494	246
Net issuance of stock options exercised, net of shares redeemed		(1,206)			1,336	130
Cash dividends common stock at $0.20 per share			(9,739)			(9,739)
		128	(128)			

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

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

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

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

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

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

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) *Topic 606, Revenue from Contracts with Customers (Topic 606).* Topic 606 establishes principles for reporting information about the timing, nature, amount and uncertainty of revenue arising from the Company s contracts to provide goods or services to customers. The Company s revenue is comprised of net interest income, which is explicitly excluded from the scope of Topic 606, and non-interest income. The Company has evaluated its non-interest income and the nature of its contracts with customers and determined that further disaggregation of revenue beyond what is presented in the accompanying unaudited Consolidated Financial Statements was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered so there is limited judgement involved in applying Topic 606 that significantly affects the determination of the timing and amount of revenue from contracts with customers.

Descriptions of the Company s primary revenue generating activities that are within Topic 606, and are presented in the accompanying unaudited Consolidated Statements of Income as components of non-interest income, include trust fees, commission and brokers fees, net, remittance processing, and fees for customer services. Trust fees and commission and brokers fees, net, represents monthly fees due from wealth management customers as consideration for managing the customers assets. Wealth management and trust services include custody of assets, investment management, fees for trust services and other fiduciary activities. Also included are fees received from a third party broker-dealer as part of a revenue sharing agreement for fees earned from customers that the Company refers to the third party. Revenue is recognized when the performance obligation is completed, which is generally monthly. Remittance processing represents transaction-based fees for pay processing solutions such as online bill payments, lockbox and walk-in payments. Revenue is recognized when the performance obligation is completed, which is generally monthly. Fees for customer services represents general service fees for monthly account maintenance and activity or transaction-based fees and consists of transaction-based revenue, time-based revenue, or item-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

On July 2, 2017, First Busey acquired First Community Financial Partners, Inc., an Illinois corporation (First Community), and its wholly-owned bank subsidiary, First Community Financial Bank. First Busey operated First Community Financial Bank as a separate bank subsidiary from July 3, 2017 until November 3, 2017, when it was merged with and into Busey Bank. At that time, First Community Financial Bank s banking centers became banking centers of Busey Bank. On October 1, 2017, First Busey acquired Mid Illinois Bancorp, Inc., an Illinois corporation (Mid Illinois) and its wholly-owned bank subsidiary, South Side Trust & Savings Bank of Peoria (South Side Bank). First Busey operated South Side Bank as a separate bank subsidiary from October 2, 2017 until March 16, 2018, when it was merged with and into Busey Bank. At that time, South Side Bank s banking centers became banking centers of Busey Bank. Their operating results are included in the Company s Financial Statements since each date of acquisition.

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

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

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

Note 2: Acquisitions

First Community Financial Partners, Inc.

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

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

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at their estimated fair values on the date of acquisition. Fair values are subject to refinement for up to one year after the closing date of July 2, 2017 as additional information regarding the closing date fair values become available; however, the Company does not expect any further adjustments will be necessary. The total consideration paid, which was used to determine the amount of goodwill resulting from the transaction, also included the fair value of outstanding First Community stock options that were converted into options to purchase common shares of First Busey and cash paid out relating to stock options and restricted stock units not converted. As the total consideration paid for First Community exceeded the net assets acquired, goodwill of $116.0 million was recorded as a result of the acquisition. Goodwill recorded in the transaction, which reflected the synergies expected from the acquisition and the greater revenue opportunities from the Company s broader service capabilities in the Chicagoland area, is not tax deductible, and was assigned to the Banking operating segment.

First Busey incurred $0.1 million and $0.6 million of pre-tax expenses related to the acquisition of First Community for the three months ended March 31, 2018 and 2017, respectively, primarily for professional and legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

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

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

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under Financial Accounting Standards Board (FASB) *ASC 310-20, Receivables-Nonrefundable Fees and Other Costs*, and were subsequently considered as part of the Company s determination of the adequacy of the allowance for loan losses. Purchased credit-impaired (PCI) loans were accounted for under *ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of the acquisition date, the aggregate principal outstanding and aggregate fair value of the acquired performing loans, including loans held for sale, both rounded to $1.1 billion. The difference between the aggregate principal balance outstanding and aggregate fair value of $14.4 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $17.9 million and the aggregate fair value of PCI loans totaled $12.5 million, which became such loans new carrying value. At March 31, 2018, PCI loans related to this transaction with a carrying value of $5.1 million were outstanding, with the decrease relating to collections. For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.6 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method; however, $0.2 million was accelerated in 2017 as a result of collections.

The following table provides the unaudited pro forma information for the results of operations for the three months ended March 31, 2017, as if the acquisition had occurred January 1, 2017. The pro forma results combine the historical results of First Community into the Company s unaudited Consolidated Statements of Income, including the impact of purchase accounting adjustments for loan discount accretion, intangible assets amortization and deposit accretion, net of taxes. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2017. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Only the merger related expenses that have been recognized are included in net income in the table below *(dollars in thousands, except per share amount)*:

	Pro Forma **Three Months Ended March 31, 2017**
Total revenues (net interest income plus non-interest income)	$ 74,885
Net income	19,111
Diluted earnings per common share	0.42

<u>Mid Illinois Bancorp, Inc.</u>

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

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

First Busey incurred $3.0 million of pre-tax expenses related to the acquisition of Mid Illinois for the three months ended March 31, 2018, primarily for salaries, wages and employee benefits expense, professional and legal fees and data conversion expenses, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements. First Busey incurred $0.1 million of pre-tax expenses related to the acquisition of Mid Illinois for the three months ended March 31, 2017, primarily for legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

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

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

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under FASB *ASC 310-20, Receivables-Nonrefundable Fees and Other Costs*, and were subsequently considered as part of the Company s determination of the adequacy of the allowance for loan losses. PCI loans were accounted for under *ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of the acquisition date, the aggregate principal outstanding was $362.4 million and aggregate fair value of the acquired performing loans was $357.0 million, including loans held for sale. The difference between the aggregate principal balance outstanding and aggregate fair value of $5.4 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $7.6 million and the aggregate fair value of PCI loans totaled $4.7 million, which became such loans new carrying value. At March 31, 2018, PCI loans related to this transaction with a carrying value of $0.9 million were outstanding, with the decrease primarily relating to a loan sale. For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.1 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method.

Note 3: Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and also requires additional disclosures. The Company s revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. The adoption of this guidance on January 1, 2018 did not change the method in which non-interest income is recognized therefore a cumulative effect adjustment to retained earnings was not necessary. Additional disclosures related to revenue recognition appears in *Note 1: Basis of Presentation.*

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

ASU 2016-02, Leases (Topic 842). ASU 2016-02 intends to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the Consolidated Balance Sheet as a lease liability and a right-of-use asset. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is evaluating the impact this guidance will have on its Consolidated Financial Statements and related disclosures. The Company expects an increase in assets and liabilities as a result of recording additional lease contracts where the Company is lessee.

ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements a comprehensive change in estimating impairment from the current model of losses inherent in loans and securities held to maturity. This current expected credit loss model is expected to result in earlier recognition of losses. ASU 2016-13 will be effective in the first quarter of 2020. The Company s implementation team is analyzing the provisions of ASU 2016-13, including evaluating the impact this guidance will have on its Consolidated Financial Statements and related disclosures.

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

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

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

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

Note 4: Securities

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

Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. Securities are classified as held to maturity when First Busey has the ability and management has the intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts.

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

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

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

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

The amortized cost and fair value of debt securities as of March 31, 2018, by contractual maturity or pre-refunded date, are shown below. Mortgages underlying mortgage-backed securities may be called or prepaid; therefore, actual maturities could differ from the contractual maturities. All mortgage-backed securities were issued by U.S. government agencies and corporations *(dollars in thousands)*.

	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 68,846	$ 68,697	$ 7,744	$ 7,713
Due after one year through five years	259,944	256,126	59,000	58,207
Due after five years through ten years	163,189	161,232	32,451	31,965
Due after ten years	343,653	336,046	359,812	352,244
Total	$ 835,632	$ 822,101	$ 459,007	$ 450,129

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

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

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

Investment securities with carrying amounts of $581.2 million and $638.2 million on March 31, 2018 and December 31, 2017, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

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

[redacted]

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

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

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

[redacted]

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

Securities are periodically evaluated for other-than-temporary impairment (OTTI). The total number of securities in the investment portfolio in an unrealized loss position as of March 31, 2018 was 841, and represented a loss of 1.92% of the aggregate carrying value. As of March 31, 2018, the Company does not intend to sell such securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be OTTI at March 31, 2018.

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

As of March 31, 2018, the fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $252.6 million of general obligation bonds and $48.8 million of revenue bonds issued by 430 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 36 states (including the District of Columbia), including eight states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 22 states, including three states where the aggregate fair value exceeded $5.0 million.

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

22 states, including three states where the aggregate fair value exceeded $5.0 million.

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

March 31, 2018:

U.S. State	**Number of Issuers**	**Amortized Cost**	**Fair Value**	**Average Exposure Per Issuer (Fair Value)**
Illinois	91	$		