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

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 6/30/2018

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

N/A

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

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

Yes x No o

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

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

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

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

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

Yes o No x

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

Class	**Outstanding at August 7, 2018**
Common Stock, $.001 par value	48,777,809

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FIRST BUSEY CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30, 2018 and December 31, 2017

(Unaudited)

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

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

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

(dollars in thousands, except per share amounts)

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

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

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

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

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2018 and 2017

(Unaudited)

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

See accompanying notes to unaudited Consolidated Financial Statements.

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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, which did not have a material impact on our consolidated financial condition or results of operations.

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

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

Use of Estimates

In preparing the accompanying unaudited Consolidated Financial Statements, the Company s management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the Financial Statements and the reported amounts of revenues and expenses for the reporting period.

Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the fair value of available for sale investment securities, the fair value of assets acquired and liabilities assumed in business combinations and the determination of the allowance for loan losses.

Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

Note 2: Acquisitions

First Community Financial Partners, Inc.

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

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

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

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

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

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

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

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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.

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

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

Mid Illinois Bancorp, Inc.

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

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

First Busey incurred $0.2 million and $3.1 million of pre-tax expenses related to the acquisition of Mid Illinois for the three and six months ended June 30, 2018, respectively, primarily for salaries, wages and employee benefits expense, professional and legal fees and data conversion expenses, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements. First Busey incurred $0.1 million and $0.2 million in pre-tax expenses related to the acquisition of Mid Illinois for the three and six months ended June 30, 2017, respectively, primarily for legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

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

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

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

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

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Note 3: Securities

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

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

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

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

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

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

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

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

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

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

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

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

Investment securities with carrying amounts of $593.5 million and $638.2 million on June 30, 2018 and December 31, 2017, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

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

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	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018:						