

FIRST BUSEY CORP /NV/
Form 10-K
February 27, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation of organization)

37-1078406
(I.R.S. Employer Identification No.)

100 W. University Avenue

Champaign, Illinois 61820

(Address of principal executive offices) (Zip code)

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

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (\$0.001 par value)	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates on the last business day of the registrant's most recently completed second fiscal quarter was \$1.4 billion, determined using a per share closing price for the registrant's common stock on that date of \$31.72, as quoted on The Nasdaq Global Select Market.

As of February 27, 2019, there were 55,600,184 shares of the registrant's common stock, \$0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2019 Annual Meeting of Stockholders of First Busey Corporation to be held May 22, 2019, are incorporated by reference in this Form 10-K in response to Part III.

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FIRST BUSEY CORPORATION

Form 10-K Annual Report

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Part I

Item 1. Business

Introduction

First Busey Corporation (“First Busey” or the “Company”), a Nevada Corporation, initially organized in 1980, is a \$7.7 billion financial holding company. First Busey conducts a broad range of financial services through its one wholly-owned bank subsidiary, Busey Bank, with banking centers in Illinois, Missouri, Florida and Indiana. First Busey is headquartered in Champaign, Illinois, and its common stock is traded on The Nasdaq Global Select Market under the symbol “BUSE.”

Acquisitions

On January 8, 2015, First Busey acquired Herget Financial Corp., a Delaware corporation (“Herget Financial”), and its wholly-owned bank subsidiary, Herget Bank, National Association (“Herget Bank”). First Busey operated Herget Bank as a separate banking subsidiary from January 9, 2015 until March 13, 2015, when it was merged with and into Busey Bank. At that time, Herget Bank’s banking centers became banking centers of Busey Bank.

On April 30, 2016, First Busey acquired Pulaski Financial Corp., a Missouri corporation (“Pulaski”), and its wholly-owned bank subsidiary, Pulaski Bank, National Association (“Pulaski Bank”). First Busey operated Pulaski Bank as a separate bank subsidiary from May 1, 2016 until November 4, 2016, when it was merged with and into Busey Bank. At that time, Pulaski Bank’s banking centers became banking centers of Busey Bank. The acquisition of Pulaski expanded the Company into the St. Louis, Missouri metropolitan area.

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. The First Community acquisition provided the Company entrance into the southwest suburban markets of the greater Chicagoland area.

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.

On August 21, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with The Banc Ed Corp., a Delaware corporation (“Banc Ed”), pursuant to which Banc Ed would merge into First Busey, with First Busey as the surviving corporation (the “Merger”). TheBANK of Edwardsville, Banc Ed’s wholly-owned bank subsidiary (“TheBANK”), will be merged with and into First Busey’s bank subsidiary, Busey Bank, at a date following the completion of the holding company merger. At the time of the bank merger, TheBANK’s banking offices will become branches of Busey Bank. This partnership will enhance First Busey’s existing deposit, commercial banking and wealth management presence in the greater St. Louis Missouri-Illinois Metropolitan Statistical Area. The holding company merger was completed on January 31, 2019 and is identified as a “subsequent event” in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. The operating results of Banc Ed are not included in this Annual Report on Form 10-K or in the Company’s Consolidated Financial Statements included herein.

See “Note 2. Acquisitions” in the Notes to the Consolidated Financial Statements for further information relating to these acquisitions.

Subsidiaries of First Busey

First Busey conducts the business of banking, related banking services, asset management, brokerage and fiduciary services through Busey Bank and retail payment processing through FirsTech, Inc. (“FirsTech”).

Busey Bank is an Illinois state-chartered bank organized in 1868 with its headquarters in Champaign, Illinois. Busey Bank has 44 banking centers in Illinois, 13 in Missouri, five in southwest Florida and one in Indianapolis, Indiana.

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Busey Bank offers a range of diversified financial products and services for consumers and businesses, including online and mobile banking capabilities to conveniently serve our customers' needs. Commercial services include commercial, commercial real estate, real estate construction and agricultural loans as well as commercial depository services including cash management. Retail banking services include residential real estate, home equity lines of credit and consumer loans, customary types of demand and savings deposits, money transfers, safe deposit services, and IRA and other fiduciary services through our banking center, ATM and technology-based networks. In addition Busey Bank provides professional farm management and brokerage services to the agricultural industry.

Busey Trust Company, formerly a subsidiary of Busey Wealth Management Inc., was merged into Busey Bank in the fourth quarter of 2018 and Busey Wealth Management, Inc. was subsequently dissolved. As a result, Busey Bank now directly provides asset management, investment and fiduciary services to individuals, businesses and foundations. As of December 31, 2018, \$7.1 billion of assets were under care. For individuals, Busey Bank provides investment management, trust and estate advisory services and financial planning. For businesses, it provides investment management, business succession planning and employee retirement plan services. For foundations, Busey Bank provides investment management, investment strategy consulting and fiduciary services. Brokerage related services are offered by Busey Investment Services, a division of Busey Bank through a third-party arrangement with Raymond James Financial Services.

Busey Bank's principal sources of income are interest and fees on loans and investments, trust fees and service fees. Principal expenses are interest paid on deposits and general operating expenses. Busey Bank's primary markets are Illinois, the St. Louis, Missouri metropolitan area, southwest Florida, and central Indiana.

Busey Bank's subsidiary, FirsTech, which has offices in Decatur, Illinois and Clayton, Missouri, offers pay processing solutions including: walk-in payment processing for payments delivered by customers to retail pay agents; online bill payment solutions for payments made by customers on a billing company's website; customer service payments for payments accepted over the telephone; mobile bill pay; direct debit services; electronic concentration of payments delivered by the Automated Clearing House network; money management software and credit card networks; and lockbox remittance processing of payments delivered by mail. As of December 31, 2018, FirsTech had approximately 4,000 agent locations in 43 states.

First Busey Corporation also has various other subsidiaries that are not significant to the consolidated entity.

The Company's operations are managed through three operating segments consisting of Banking, Remittance Processing and Wealth Management. See "Note 22. Operating Segments and Related Information" in the Notes to the Consolidated Financial Statements for an analysis of segment operations.

Economic Conditions of Markets

The Company has 44 banking centers serving Illinois. Our Illinois markets of Champaign, Macon, McLean, and Peoria counties and Southwest Chicago feature several Fortune 1000 companies. Those organizations, coupled with large healthcare and higher education sectors, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

The State of Illinois, where a large portion of the Company's customer base is located, continues to be troubled with pension under-funding, continued budget deficits and a declining credit outlook. Any possible payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market areas.

Busey Bank has 13 banking centers serving the St. Louis metropolitan area, all of which are located in the city of St. Louis, or the adjacent counties of St. Louis County and St. Charles County. The bi-state metropolitan area includes seven counties in Missouri and eight counties in Illinois; therefore, the Company's geographic concentration in only three of these 15 counties gives the Company expansion opportunities into neighboring counties. St. Louis has a diverse economy with major employment sectors including health care, financial services, professional and business services, and retail. St. Charles County has been one of the fastest-growing counties in the country for decades.

Busey Bank has five banking centers in southwest Florida which has experienced job growth and an expanded housing market over the last several years.

Busey Bank has one banking center in the Indianapolis, Indiana area, which is the most populous city of Indiana with a diverse economy, including the headquarters of many large corporations.

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Competition

Busey Bank competes actively with national and state banks, savings and loan associations and credit unions for deposits and loans mainly in Illinois, the St. Louis, Missouri metropolitan area, southwest Florida, and central Indiana. Busey Bank competes for real estate and other loans primarily on the basis of type of loan, interest rates and loan fees and the quality of services provided. Busey Bank and FirsTech compete with other financial institutions, including asset management and trust companies, security broker/dealers, personal loan companies, insurance companies, finance companies, leasing companies, mortgage companies, remittance processing companies, and certain governmental agencies, all of which actively engage in marketing various types of loans, deposit accounts, wealth management and other products and services.

The Bank faces substantial competition in attracting deposits from other commercial banks, savings institutions, money market and mutual funds, credit unions, insurance agencies, brokerage firms, and other investment vehicles. Customers for banking services are generally influenced by convenience, quality of service, personal contacts, price of services and availability of products. The Bank attracts a significant amount of deposits through their banking centers, primarily from the communities in which those banking centers are located; therefore, competition for those deposits is principally from other commercial banks, savings institutions, and credit unions located in the same communities. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, high-quality customer service, convenient business hours, internet and mobile banking, and convenient banking centers with interbranch deposit and withdrawal privileges.

Based on information obtained from the Federal Deposit Insurance Corporation (“FDIC”) Summary of Deposits dated June 30, 2018, Busey Bank ranked in the top ten in total deposits in ten Illinois counties: first in Champaign County; fifth in Ford County; sixth in Grundy County; seventh in Livingston County; second in Macon County; fifth in McLean County; second in Peoria County; second in Shelby County; third in Tazewell County; and seventh in Will County. In addition, Busey Bank was ranked tenth in St. Louis County in Missouri. First Busey believes that it effectively competes with other banks, thrifts and financial institutions in these market areas.

Supervision, Regulation and Other Factors

General

At December 31, 2018, First Busey had one wholly-owned bank subsidiary, Busey Bank. On January 31, 2019, First Busey completed its acquisition of Banc Ed, and its wholly-owned bank subsidiary, TheBANK. The operating results of Banc Ed are not included in this Annual Report on Form 10-K or in the Company’s Consolidated Financial Statements included herein and the acquisition is identified as a “subsequent event” in the Notes to the Consolidated Financial Statements.

FDIC-insured institutions, like Busey Bank and TheBANK (both of which are sometimes collectively referred to in this section as the “Banks”), as well as their holding companies and their affiliates, are extensively regulated under federal and state law. As a result, the Company’s growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Illinois Department of Financial and Professional Regulation (the “DFPR”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the FDIC and the Consumer Financial Protection Bureau (“CFPB”). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (“FASB”), securities laws administered by the Securities and Exchange Commission (“SEC”) and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (“Treasury”) have an impact on the Company’s business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company’s operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company’s business, the kinds and amounts of investments the Company and the Banks may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company’s and the Banks’ insiders and affiliates and the Company’s payment of dividends. In reaction to the global financial crisis and particularly following the passage of the Dodd-Frank Act, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused the Company’s compliance and risk management processes, and the costs thereof, to increase. Moreover, as of December 31, 2018, the Company was approaching a size threshold (\$10 billion in assets) at which point prescribed prudential standards would be significantly enhanced. After the 2016 federal elections, momentum to decrease the regulatory burden on all but the largest banks gathered strength. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Regulatory Relief Act”) was enacted to provide meaningful relief for community banks and their holding companies (those with less

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than \$10 billion in assets) and on larger institutions that had been categorized as systemically important solely because of size (those with assets between \$50 billion and \$250 billion). Because the Company is approaching the \$10 billion threshold, it will not benefit from all of the changes effected for community banks; however, the Regulatory Relief Act relieves it from certain prudential requirements, including mandatory annual company-run stress tests that would otherwise have become applicable when it exceeded \$10 billion in assets. The Company believes that such reforms are favorable to its operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Banks, beginning with a discussion of the continuing regulatory emphasis on the Company's capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels

Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of "capital" divided by "total assets." As

discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, were excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than \$15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than \$15 billion, the Company is able to maintain its trust preferred proceeds as capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords

The risk-based capital guidelines for U.S. banks since 1989 were based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be assigned risk weights (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of \$250 billion or more, or consolidated foreign exposures of \$10 billion or more) known as “advanced approaches” banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This “standardized approach” increased the number of risk-weight categories and recognized risks well above the original 100% risk weight. It is institutionalized by the Dodd-Frank Act for all banking organizations, even for the advanced approaches banks, as a floor.

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On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule

In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rule”). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of enforceable regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” (generally holding companies with consolidated assets of less than \$3 billion that do not have securities registered with the SEC). Banking organizations became subject to the Basel III Rule on January 1, 2015 and all parts of it were fully phased-in as of January 1, 2019.

The Basel III Rule increased the required quantity and quality of capital and, for nearly every class of assets, it requires a more complex, detailed and calibrated assessment of risk and calculation of risk-weight amounts. Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution’s Common Equity Tier 1 Capital.

The Basel III Rule required minimum capital ratios as of January 1, 2015, as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer (fully phased-in as of January 1, 2019). The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

Well-Capitalized Requirements

The ratios described above are minimum standards in order for banking organizations to be considered “adequately capitalized.” Bank regulatory agencies uniformly encourage banks to hold more capital and be “well-capitalized” and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

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Under the capital regulations of the FDIC and Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
 - A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more (6% under Basel I);
- A ratio of Total Capital to total risk-weighted assets of 10% or more (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2018: (i) neither Busey Bank nor TheBANK was subject to a directive from the FDIC to increase its capital and (ii) the Banks were well-capitalized, as defined by FDIC regulations. As of December 31, 2018, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action

The concept of an institution being "well-capitalized" is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take "prompt corrective action" to resolve the problems of institutions based on the capital level of each particular institution. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Regulation and Supervision of the Company

General

The Company, as the sole stockholder of the Banks, is a bank holding company. As a bank holding company, the Company is registered with, and subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the “BHCA”). The Company is legally obligated to act as a source of financial and managerial strength to each of the Banks and to commit resources to support them in circumstances where we might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file with the Federal Reserve periodic reports of its operations and such additional information regarding the Company and each of the Banks as the Federal Reserve may require.

Acquisitions, Activities and Financial Holding Company Election

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “—The Role of Capital” above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking ... as to be a proper incident thereto.” This authority permits the Company to engage in a variety of banking-related businesses, including the ownership and operation of a

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savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. The Company has elected to operate as a financial holding company. In order to maintain its status as a financial holding company, the Company and each of the Banks must be well-capitalized, well-managed, and the Banks must have a least a satisfactory Community Reinvestment Act (“CRA”) rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company’s subsidiary bank has not received a satisfactory CRA rating, that company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Change in Control

Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements

Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see “—The Role of Capital” above.

Dividend Payments

The Company's ability to pay dividends to its stockholders may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a Nevada corporation, the Company is subject to the limitations of Nevada law, which allows the Company to pay dividends unless, after such dividend, (i) the Company would not be able to pay its debts as they become due in the usual course of business or (ii) the Company's total assets would be less than the sum of its total liabilities plus any amount that would be needed, if the Company were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of stockholders whose rights are superior to the rights of the stockholders receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders if: (i) the company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "—The Role of Capital" above.

Incentive Compensation

There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that were the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices.

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The interagency guidance recognized three core principles. Effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures, and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Company that use incentive compensation arrangements are expected to be less extensive, formalized, and detailed than those of the larger banks.

Monetary Policy

The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance

The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a nonbinding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Regulation and Supervision of the Banks

General

Both of the Banks are Illinois-chartered banks. Their deposit accounts are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations, currently \$250,000 per insured depositor category. As Illinois-chartered FDIC-insured banks, the Banks are subject to the examination, supervision, reporting and enforcement requirements of the DFPR, the chartering authority for Illinois banks. The Banks are also regulated by the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Banks, are not members of the Federal Reserve System.

Deposit Insurance

As FDIC-insured institutions, the Banks are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Banks that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF has been calculated since effectiveness of the Dodd-Frank Act based on its average consolidated total assets less its average tangible equity. This method shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the FDIC insurance fund balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.36% as of September 30, 2018 (most recent available), exceeding the statutory required minimum reserve ratio of 1.35%. The FDIC will provide assessment credits to insured depository institutions, like the Banks, with total consolidated assets of less than \$10 billion for the portion of their regular assessments that contribute to growth in the reserve

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ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

FICO Assessments

In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Fair Isaac Corporation (“FICO”) assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately \$8.1 billion that mature through 2019. FICO’s authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO’s outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2018 was 32 cents per \$100 dollars of assessable deposits.

Supervisory Assessments

All Illinois-chartered banks are required to pay supervisory assessments to the DFPR to fund the operations of that agency. The amount of the assessment is calculated on the basis of each bank’s total assets.

Capital Requirements

Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see “—The Role of Capital” above.

Liquidity Requirements

Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day

liquidity stress scenario. The other test, known as the NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these rules do not, and will not, apply to the Banks, the Company continues to review its liquidity risk management policies in light of developments.

Dividend Payments

The primary source of funds for the Company is dividends from its subsidiary banks. Under Illinois banking law, Illinois-chartered banks generally may pay dividends only out of undivided profits. The DFPR may restrict the declaration or payment of a dividend by an Illinois-chartered bank. The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. Notwithstanding the availability of funds for dividends, the FDIC and the DFPR may prohibit the payment of dividends by the Banks if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer.

The ability of the Company to pay cash dividends to its stockholders and to service its debt was historically dependent on the receipt of cash dividends from its subsidiaries. Under applicable regulatory requirements, an Illinois state-chartered bank such as Busey Bank may not pay dividends in excess of its net profits. Because Busey Bank had been in an accumulated deficit position since 2009, it was not able to pay dividends. With prior approval from its regulators, however, an Illinois state-chartered bank in that situation was able to reduce its capital stock by amending its charter to decrease the authorized number of shares, and then make a subsequent distribution to its holding company. Using this approach, and with the approval of its regulators, Busey Bank has distributed funds to

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the Company, the most recent of which was \$40.0 million on October 12, 2018. Busey Bank returned to positive retained earnings in the second quarter of 2018. The Company expects Busey Bank to return to paying dividends from net profits in future periods.

State Bank Investments and Activities

The Banks are permitted to make investments and engage in activities directly or through subsidiaries as authorized by Illinois law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Banks.

Insider Transactions

The Banks are subject to certain restrictions imposed by federal law on “covered transactions” between the Banks and their “affiliates.” The Company is an affiliate of the Banks for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Banks. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Banks to their directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Banks, or a principal stockholder of the Company, may obtain credit from banks with which the Banks maintain a correspondent relationship.

Safety and Soundness Standards/Risk Management

The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. While regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. The Banks are expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

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Branching Authority

Illinois banks, such as the Banks, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The Company expects to merge TheBANK with and into Busey Bank in the second half of 2019.

Transaction Account Reserves

Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2019, the first \$16.3 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating between \$16.3 million to \$124.2 million, the reserve requirement is 3% of those transaction account balances; and for net transaction accounts in excess of \$124.2 million, the reserve requirement is 10% of the aggregate amount of total transaction account balances in excess of \$124.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements

The CRA requires each of the Banks to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Banks' records of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of each of the Bank's effectiveness in meeting their CRA requirements.

Anti-Money Laundering

The USA Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The USA Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs;

(ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Privacy and Cybersecurity

The Banks are subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Banks to periodically disclose their privacy policies and practices relating to sharing such information and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Banks' ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, the Banks are required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations.

Concentrations in Commercial Real Estate

Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("CRE Guidance") provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain

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underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk. As of December 31, 2018, Busey Bank did not exceed these guidelines.

Consumer Financial Services

The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Banks, as well as the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over providers with more than \$10 billion in assets, and that will include Busey Bank when its assets exceed that amount. In the meantime, as long as the Banks are FDIC-insured institutions with \$10 billion or less in assets, they will continue to be examined by the applicable bank regulators. The CFPB’s rules have not had a significant impact on the Banks’ operations, except for higher compliance costs.

Executive Officers

Following is a description of the business experience for at least the past five years of our executive officers.

Van A. Dukeman. Mr. Dukeman, age 60, has served as a Director, Chief Executive Officer and President of First Busey since August 2007. Effective February 28, 2009 through March 31, 2010, Mr. Dukeman also served as the Chief Executive Officer and President of Busey Bank. Prior to August 2007, Mr. Dukeman served as a Director, Chief Executive Officer and President of Main Street Trust, Inc. (“Main Street Trust”) until its merger with First Busey.

Curt A. Anderson. Mr. Anderson, age 63, currently serves as President of Busey Wealth Management, a division of Busey Bank. Prior to that appointment, he had served as President and Chief Executive Officer of Busey Wealth Management, Inc. from February 2016 to October 2018 and as Executive Vice President and Senior Managing Director at Busey Wealth Management, Inc. since 2007.

Robin N. Elliott. Mr. Elliott, age 42, was appointed Chief Operating Officer of First Busey in February 2016. He continues to serve as Chief Financial Officer of First Busey, which he has served since January 1, 2014, as the Company conducts a search to name a new Chief Financial Officer. Mr. Elliott had previously served as Director of the Business Banking Group of Busey Bank since November 2011. Prior to that appointment, he had served as

Director of Finance & Treasury since joining the organization in 2006.

Barbara J. Harrington. Mrs. Harrington, age 59, has served as Chief Risk Officer of First Busey since March 2010, prior to which she had served as Chief Financial Officer of First Busey since March 1999. She also served as Controller and Senior Vice President of Busey Bank from December 1994 to March 1999, and has served in various financial and accounting positions since joining the organization in 1991.

Howard F. Mooney II. Mr. Mooney, age 54, has served as President and Chief Executive Officer of FirsTech Inc., our payment processing subsidiary, since 2000. In addition, Mr. Mooney has served as Chief Information Officer of First Busey since January 1, 2014. Prior to our August 2007 merger, FirsTech was a subsidiary of Main Street Trust.

Robert F. Plecki, Jr. Mr. Plecki, age 58, has served as Chief Credit Officer of First Busey since March 2010. Mr. Plecki previously served as President & Chief Executive Officer of Busey Wealth Management, Inc. from October 2013 until February 2016 and Chief Operating Officer of First Busey from October 2012 until February 2016. Prior to March 2010, he had served as Executive Vice President of our southwest Florida market since early 2009. Prior to that he served as Executive Vice President of our Champaign-Urbana market following First Busey's merger with Main Street Trust in 2007, and, prior to the merger, had served as President of Main Street Bank & Trust Retail Banking since 2004.

John J. Powers. Mr. Powers, age 63, has served as General Counsel of First Busey since December 2011. Prior to that, he was a shareholder of Meyer Capel, P.C., a law firm based in Champaign, Illinois, since 1998.

Amy L. Randolph. Mrs. Randolph, age 44, was appointed Chief of Staff in April 2017. Prior to that appointment she served as Executive Vice President and Chief Brand Officer since March 2014. Prior to March 2014, she served as Senior Vice President of Growth Strategies since 2008.

Christopher M. Shroyer. Mr. Shroyer, age 53, has served as President and Chief Executive Officer of Busey Bank since March 2010, prior to which he had served as Executive Vice President of our East Region since early 2009. Prior to 2009, he served

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as Executive Vice President of our Decatur market following First Busey's merger with Main Street Trust in 2007, and, prior to the merger, had served as Executive Vice President of Main Street Bank & Trust Commercial Banking since 2004.

Employees

As of December 31, 2018, First Busey and its subsidiaries had a total of 1,270 employees (full-time equivalents).

Securities and Exchange Commission Reporting and Other Information

First Busey's website address is www.busey.com. We make available on this website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, as soon as reasonably practicable after such reports are filed or furnished with the SEC, and in any event, on the same day as such filing with the SEC. Reference to this website does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document.

First Busey has adopted a code of ethics applicable to our employees, officers, and directors. The text of this code of ethics may be found under "Investor Relations" on our website.

Non-GAAP Financial Information

This Annual Report on Form 10-K contains certain financial information determined by methods other than in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). These measures include adjusted net income, adjusted return on average assets, adjusted net interest margin, adjusted efficiency ratio, tangible common equity to tangible assets, tangible book value per share and return on average tangible common equity. Management uses these non-GAAP measures, together with the related GAAP measures, to analyze the Company's performance and to make business decisions. Management also uses these measures for peer comparisons.

A reconciliation to what management believes to be the most direct compared GAAP financial measures, specifically net income in the case of adjusted net income and adjusted return on average assets, total net interest income, total non-interest income and total non-interest expense in the case of adjusted efficiency ratio and total stockholders' equity in the case of the tangible book value per share, appears below (dollars in thousands, except per share data). The Company believes each of the adjusted measures is useful for investors and management to understand the effects of

certain non-recurring non-interest items and provides additional perspective on the Company's performance over time as well as comparison to the Company's peers.

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

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

	December 31, 2018	December 31, 2017		
Net income	\$ 98,928	\$ 62,726		
Acquisition expenses				
Salaries, wages, and employee benefits	1,233	840		
Data processing	406	2,616		
Other (includes professional and legal)	2,486	3,617		
Other restructuring costs				
Salaries, wages, and employee benefits	1,058	711		
Fixed asset impairments	817	—		
Other	—	66		
Related tax benefit	(1,451)	(3,012)		
Tax Cuts and Jobs Act (the "TCJA") related adjustment	—	8,098		
Adjusted net income	\$ 103,477	\$ 75,662		
Average assets	\$ 7,742,142	\$ 6,294,105		
Reported: Return on average assets	1.28	%	1.00	%
Adjusted: Return on average assets	1.34	%	1.20	%

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Reconciliation of Non-GAAP Financial Measures — Adjusted Net Interest Margin

	Year Ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Reported: Net interest income	\$ 241,406	\$ 203,366	\$ 154,660
Tax-equivalent adjustment	2,258	3,656	3,493
Less: Purchase accounting accretion	(10,550)	(12,458)	(8,123)
Adjusted: Net interest income	\$ 233,114	\$ 194,564	\$ 150,030
Average interest-earning assets	\$ 7,067,710	\$ 5,784,408	\$ 4,630,768
Reported: Net interest margin	3.45	% 3.58	% 3.42
Adjusted: Net Interest margin	3.30	% 3.36	% 3.24

Reconciliation of Non-GAAP Financial Measures — Adjusted Efficiency Ratio

	Year Ended	
	December 31, 2018	December 31, 2017
Reported: Net Interest income	\$ 241,406	\$ 203,366
Tax-equivalent adjustment	2,258	3,656
Tax equivalent interest income	\$ 243,664	\$ 207,022
Reported: Non-interest income	89,993	84,474
Less: Security gains, net	331	1,143
Adjusted: Non-interest income	\$ 89,662	\$ 83,331
Reported: Non-interest expense	193,043	174,426
Less:		
Amortization of intangible assets	(5,854)	(5,245)
Non-operating adjustments:		
Salaries, wages, and employee benefits	(2,291)	(1,551)
Data processing	(406)	(2,616)
Other	(2,858)	(3,683)
Adjusted: Non-interest expense	\$ 181,634	\$ 161,331
Reported: Efficiency ratio	56.16	% 58.27
Adjusted: Efficiency ratio	54.49	% 55.56

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Reconciliation of Non-GAAP Financial Measures — Tangible Common Equity to Tangible Assets, Tangible Book Value per Share, Return on Average Tangible Common Equity

	As of			
	December 31, 2018	December 31, 2017		
Total Assets	\$ 7,702,357	\$ 7,860,640		
Less:				
Goodwill and other intangible assets, net	(300,558)	(308,073)		
Tax effect of other intangible assets, net	8,547	11,039		
Tangible assets	\$ 7,410,346	\$ 7,563,606		
Total stockholders' equity	994,964	935,003		
Less:				
Goodwill and other intangible assets, net	(300,558)	(308,073)		
Tax effect of other intangible assets, net	8,547	11,039		
Tangible common equity	\$ 702,953	\$ 637,969		
Tangible common equity to tangible assets(1)	9.49	%	8.43	%
Tangible book value per share	\$ 14.21		\$ 12.88	
Average stockholders' common equity	\$ 954,949	\$ 739,825		
Less: Average goodwill and other intangible assets, net	(303,917)	(199,419)		
Average tangible stockholders' common equity	\$ 651,032	\$ 540,406		
Reported: Return on average tangible common equity	15.20	%	11.61	%
Adjusted: Return on average tangible common equity(2)	15.89	%	14.00	%

(1) Tax effected measure.

(2) Calculated using adjusted net income available to common stockholders.

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Special Cautionary Note Regarding Forward-Looking Statements

Statements contained in or incorporated by reference into this Annual Report on Form 10-K that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Exchange Act. These forward-looking statements are covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and estimates and describe our future plans, strategies and expectations, can generally be identified by the use of the words “may,” “will,” “should,” “could,” “would,” “goal,” “plan,” “potential,” “estimate,” “project,” “believe,” “intend,” “anticipate,” “expect,” “target,” “aim” and similar expressions. These forward-looking statements include statements relating to our projected growth, anticipated future financial performance, financial condition, credit quality and management’s long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, our business and growth strategies and any other statements that are not historical facts.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. Factors that could have a material adverse effect on our financial condition, results of operations and future prospects can be found under Item 1A “Risk Factors” in this Annual Report on Form 10-K and elsewhere in our periodic and current reports filed with the SEC. These factors include, but are not limited to, the following:

- the strength of the local, state, national and international economy (including the impact of tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, trade wars and other changes in trade regulations);
- changes in state and federal laws, regulations and governmental policies concerning First Busey’s general business;
- changes in interest rates and prepayment rates of First Busey’s assets;
- increased competition in the financial services sector and the inability to attract new customers;
- changes in technology and the ability to develop and maintain secure and reliable electronic systems;
- the loss of key executives or employees;
- changes in consumer spending;
- unexpected results of current and/or future acquisitions, which may include failure to realize the anticipated benefits of the acquisition and the possibility that the transaction costs may be greater than anticipated;
- unexpected outcomes of existing or new litigation involving First Busey;
- the economic impact of any future terrorist threats or attacks;
- the economic impact of exceptional weather occurrences such as tornadoes, hurricanes, floods, and blizzards;
- changes in accounting policies and practices; and
- other factors and risks described under “Risk Factors” herein.

Because of those risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations are not necessarily indicative of our future results.

You should not place undue reliance on any forward-looking statements, which speak only as of the dates on which they were made. We are not undertaking an obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under federal securities law. We qualify all of our forward-looking statements by these cautionary statements.

Item 1A. Risk Factors

This section highlights the risks management believes could adversely affect our financial performance. Additional possible risks that could affect the Company adversely and cannot be predicted may arise at any time. Other risks that are immaterial at this time may also have an adverse impact on our future financial condition.

Economic and Market Risks

Conditions in the financial market and economic conditions, including conditions in the states in which it operates, generally may adversely affect the Company's business.

The Company's general financial performance is highly dependent upon the business environment in the markets where it operates and, in particular, the ability of borrowers to pay interest on and repay principal of outstanding loans and value of collateral securing those loans, as well as demand for loans and other products and services it offers. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by

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declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, or a combination of these or other factors.

While economic conditions have both improved and stabilized since the 2008-2009 recession, there can be no assurance that either improvement or stability will continue. Uncertainty regarding continuing economic conditions may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of the Company's loans, our financial condition and results of operations. In addition, there is potential for an increasing federal government debt burden to negatively impact long-term financial stability. U.S. federal government debt held by the public stood at 76% of gross domestic product as of September 2018. The Congressional Budget Office projects that debt burden could increase in an accelerating manner in the coming decades, the impacts of which could include higher interest rates which can lead to slower economic growth, a decrease in government investment as well as a diminished demand for U.S. Treasury bonds.

The Company's financial performance is also affected by the condition of the markets in which it conducts business. The Company currently conducts its banking operations in downstate Illinois, the Southwest suburbs of Chicago, Illinois, the St. Louis, Missouri metropolitan area, central Indiana and southwest Florida. The financial condition of the State of Illinois, in which the largest portion of the Company's customer base resides, is characterized with low credit ratings, pension under-funding, budget deficits and lower job growth rates than most of the country. The Company operates in markets with significant university and healthcare presence, which rely heavily on state and federal funding and contracts. Payment delays by the State of Illinois to its vendors and government-sponsored entities as well as potential federal changes to healthcare laws could affect the Company's primary market areas, which could in turn adversely affect its financial condition and results of operations. Downturns in markets where banking operations occur could result in a decrease in demand for the Company's products and services, an increase in loan delinquencies and defaults, high or increased levels of problem assets and foreclosures and reduced wealth management fees resulting from lower asset values.

Market volatility and changes in interest rates could have an adverse effect on the Company.

In certain recent periods, the capital and credit markets experienced heightened volatility and disruption. In some cases, the markets produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial condition or performance. Conversely, significant increases in the stock markets can also have destabilizing effects. If the capital and credit markets experience these heightened levels of disruption and volatility again, both the Company and its customers' ability to maintain or access capital could be adversely affected which could have an impact on the Company's business, financial condition and results of operations.

Changes in interest rates could affect the level of assets and liabilities held on the Company's balance sheet and the revenue that the Company earns from net interest income, as earnings and profitability depend significantly on our net

interest income. Net interest income represents the difference between interest income and fees earned on interest-earning assets such as loans and investment securities and interest expense incurred on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies, including the Federal Open Market Committee. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect the Company's ability to originate loans and obtain deposits and the fair value of the Company's financial assets and liabilities. In addition, a rise in interest rates could result in decreased demand for first mortgages as well as mortgage refinancing, activities which have historically contributed to a significant portion of the Company's mortgage revenue. Furthermore, if the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and investment securities, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Finally, when interest rates rise, competition for deposits often increases, which can lead to a change in the Company's funding mix and cost of funding. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's wealth management business may also be negatively impacted by changes in general economic conditions and the conditions in the financial and securities markets, which could affect the values of assets held under care. Management contracts generally provide for fees payable for wealth management services based on the market value of assets under care. Because most of the Company's contracts provide for a fee based on market values of securities, declines in securities prices may have an adverse effect on the Company's results of operations from this business. Market declines and reductions in the value of customers' wealth management accounts, could also result in the loss of wealth management customers, including those who are also banking customers.

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The transition to an alternative reference rate could cause instability and have a negative effect on financial market conditions.

The London Inter-bank Offered Rate (“LIBOR”) represents the interest rate at which banks offer to lend funds to one another in the international interbank market for short-term loans. Beginning in 2008, concerns were expressed that some of the member banks surveyed by the British Bankers’ Association (the “BBA”) in connection with the calculation of LIBOR rates may have been under-reporting or otherwise manipulating the interbank lending rates applicable to them. Regulators and law enforcement agencies from a number of governments have conducted investigations relating to the calculation of LIBOR across a range of maturities and currencies. If manipulation of LIBOR or another inter-bank lending rate occurred, it may have resulted in that rate being artificially lower (or higher) than it otherwise would have been. Responsibility for the calculation of LIBOR was transferred to ICE Benchmark Administration Limited, as independent LIBOR administrator, effective February 1, 2014.

On July 27, 2017, the U.K. Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021 (the “July 27th Announcement”). The July 27th Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable benchmark, what rate or rates may become accepted alternatives to LIBOR or the effect of any such changes in views or alternatives on the value of LIBOR-linked securities.

Although the Financial Stability Oversight Council has recommended a transition to an alternative reference rate in the event LIBOR is no longer available after 2021, such plans are still in development and, if enacted, could present challenges. Moreover, contracts linked to LIBOR are vast in number and value, are intertwined with numerous financial products and services, and have diverse parties. The downstream effect of unwinding or transitioning such contracts could cause instability and negatively impact the financial markets and individual institutions. The uncertainty surrounding the sustainability of LIBOR more generally could undermine market integrity and threaten individual financial institutions and the U.S. financial system more broadly.

The Company could recognize losses on securities held in its securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Factors beyond the Company’s control may significantly influence the fair value of securities in its portfolio and may cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by the Company are generally subject to decreases in market value when interest rates rise. A change in the fair value of securities could cause an other-than-temporary impairment (“OTTI”) in future periods and result in realized losses.

The process for determining whether impairment is an OTTI usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Downgrades in the credit ratings of one or more insurers that provide credit enhancements for the Company's state and municipal securities portfolio may have an adverse impact on the market for and valuation of these types of securities.

The Company invests in tax-exempt state and local municipal securities, some of which are insured by monoline insurers. In recent years, several of these insurers have come under scrutiny by rating agencies. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of the Company's investment securities. A downgrade or a default by an issuer could adversely affect the Company's liquidity, financial condition and results of operations.

Changes in U.S. trade policies, such as the implementation of tariffs, and other factors beyond the Company's control may adversely impact our business, financial condition and results of operations.

In recent months, the U.S. government implemented tariffs on certain products, and certain countries or entities, such as Mexico, Canada, China and the European Union, have issued or continue to threaten retaliatory tariffs against products from the United States, including agricultural products. Additional tariffs and retaliatory tariffs may be imposed in the future by the United States and these and other countries. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer's margins, and adversely impact their revenues, financial results and ability to service debt, which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes

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in the political environment have a negative impact on us or on the markets in which we operate, our business, results of operations and financial condition could be materially and adversely impacted in the future.

Regulatory and Legal Risks

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

At this time, it is difficult to predict future legislative and regulatory changes. Although both the President and senior members of Congress have advocated for and successfully passed some reductions of financial services regulation, exactly which regulatory changes will be pursued in the future, as well as the timing and extent of regulatory changes that could be enacted, remains uncertain. New appointments to the Board of Governors of the Federal Reserve may affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.

Legislative and regulatory reforms applicable to the financial services industry, as well as heightened focus on particular regulations, may have a significant impact on the Company's business, financial condition and results of operations.

The laws, regulations, rules, policies and regulatory interpretations governing the Company continue to evolve and will likely continue to change over time as Congress and various regulatory agencies react to adverse economic conditions or other matters. The global financial crisis of 2008-2009 served as a catalyst for a number of significant changes in the financial services industry, including the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which increase both the amount and quality of capital that financial institutions must hold. The implementation of these provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of the Company's business activities and may change certain business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose the Company to additional expense, including increased compliance costs.

These rule and regulatory changes may also require the Company to invest significant management attention and resources so as to make necessary changes to operations in order to comply. In addition to the expense and uncertainty related to increased regulation, the financial services industry in recent years has faced more intense scrutiny from regulatory agencies in the examination process and more aggressive enforcement of regulations on both

the federal and state levels, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with Bank Secrecy Act, anti-money laundering laws, and the Patriot Act, which focuses on money laundering in the form of terrorist financing. Federal law grants substantial enforcement powers to financial services' regulators including, among other things, the ability to assess significant civil or criminal monetary penalties, fines or restitution; to issue cease and desist orders; and to initiate injunctive actions against banking organizations. These enforcement actions may be initiated for violations of laws or regulations and for unsafe or unsound practices. If the Company were the subject of an enforcement action, it could have an adverse impact on the Company.

Credit and Lending Risks

Heightened credit risk associated with lending activities may result in insufficient loan loss provisions, which could have material adverse effect on the Company's results of operations and financial condition.

There are risks in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from economic and market conditions. The Company attempts to reduce its credit risk through loan application approval procedures, monitoring the concentration of loans within specific industries and geographic location, and periodic independent reviews of outstanding loans by its loan review and audit departments as well as external parties. However, while such procedures help reduce risks, they cannot be expected to completely eliminate the Company's credit risks. Borrowers may experience difficulties in repaying their loans for any of a variety of reasons resulting in a rise in the level of nonperforming loans, charge-offs and delinquencies and/or a need for increases in the provision for loan losses.

The Company establishes an allowance for loan losses and maintains it at a level considered adequate by management to absorb probable loan losses based on a continual analysis of the Company's portfolio and market environment. The allowance for loan losses represents the Company's estimate of probable losses in the portfolio at each balance sheet date and is based upon other relevant information available. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified.

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Changes to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in the relevant market areas. The actual amount of loan losses is affected by changes in economic, operating and other market conditions, which may be beyond the Company's control, and such losses may exceed current estimates.

Although management believes the allowance for loan losses is adequate to absorb losses on existing loans that may become uncollectible, management cannot guarantee that additional provisions for loan losses will not be required in the future. Additional provision could be recorded, either as a result of management's decision or as a requirement by regulators, to further supplement the allowance for loan losses, particularly if economic conditions unfold in a manner which differs significantly from what management currently expects. Additional provisions to the allowance for loan losses and loan losses in excess of the Company's current allowance for loan losses may adversely affect its business, financial condition and results of operations.

Non-performing assets take significant time to resolve and adversely affect the Company's results of operations and financial condition, and could result in further losses in the future.

The Company's non-performing assets adversely affect its net income in various ways. While the Company pays interest expense to fund non-performing assets, it does not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting its income and returns on assets and equity. In addition, loan administration costs increase and the Company's efficiency ratio is adversely affected. When the Company takes collateral in foreclosures and similar proceedings, it is required to mark the collateral to its then-fair market value, which, when compared to the outstanding balance of the loan, may result in a loss. Non-performing loans and other real estate owned also increase the Company's risk profile and the capital its regulators believe is appropriate in light of such risks. The resolution of non-performing assets requires significant time commitments from management, which can be detrimental to the performance of their other responsibilities. The Company cannot guarantee that it will not experience increases in non-performing loans in the future, and its non-performing assets may result in further losses in the future.

Concentrations of credit and market risk could increase the potential for significant losses.

The Company may have higher credit risk, or experience higher credit losses, to the extent its loans are concentrated by loan type, industry segment, borrower type, or geographic location of the borrower or collateral. A significant portion of the Company's loan portfolio is made up of mortgage, commercial and industrial loans, and secured by real estate. Thus, deterioration in economic conditions or real estate values could result in higher credit costs and losses to the Company.

The Company's commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, which the Company requires whenever appropriate on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. As a result of the larger average size of each commercial loan as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on the Company's financial condition and results of operations.

As previously noted, a significant portion of the Company's loans are collateralized by real estate. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more markets could increase the credit risk associated with the Company's loan portfolio, and could result in losses which would adversely affect profitability. Mortgage loans in the Company's portfolio with high loan-to-value ratios are more sensitive to declining property values and may experience a higher incident of default and severity of losses. Adverse changes in the economy affecting real estate values and liquidity generally, and in markets in which the Company has banking operations, could significantly impair the value of property pledged as collateral on loans and affect the Company's ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan which would result in losses.

Credit risk associated with concentration of securities in the Company's investment portfolio may increase the potential for loss.

The Company's investment portfolio consists, in part, of securities issued by government or government sponsored agencies and non-government entities. A downturn in the financial condition of the issuers, the performance of the underlying collateral, or the financial condition of the individual mortgagors with respect to the underlying securities could create results such as rating agency downgrades of the securities and default by issuers or individual mortgagors. Any of the foregoing factors could cause an OTTI in future periods and result in realized losses, which could adversely affect the Company's financial condition and results of operations.

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Real estate construction, land acquisition and development loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and the Company may be exposed to significant losses on loans for these projects.

Construction, land acquisition, and development loans involve additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If the Company's appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, there may be inadequate security for the repayment of the loan upon completion of construction of the project. If the Company is forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that it will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, the Company may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while it attempts to dispose of it.

The Company's exposure to home equity lines of credit may increase the potential for loss.

The Company's mortgage loan portfolio consists, in part, of home equity lines of credit. A large portion of home equity lines of credit are originated in conjunction with the origination of first mortgage loans eligible for sale in the secondary market, which the Company typically does not service if the loan is sold. By not servicing the first mortgage loans, the Company is unable to track the delinquency status which may indicate whether such loans are at risk of foreclosure by others. In addition, home equity lines of credit are initially offered as "revolving" lines of credit whereby the borrowers are only required to make scheduled interest payments during the initial terms of the loans, which is generally five years. Thereafter, the borrowers no longer have the ability to make principal draws from the lines and the loans convert to a fully-amortizing basis, requiring scheduled principal and interest payments sufficient to repay the loans within a certain period of time, which is generally 10 years. The conversion of a home equity line of credit to a fully amortizing basis presents an increased level of default risk to us since the borrower no longer has the ability to make principal draws on the line, and the amount of the required monthly payment could substantially increase to provide for scheduled repayment of principal and interest.

Capital and Liquidity Risks

The Company is required to maintain capital to meet regulatory requirements, and if it fails to maintain sufficient capital, whether as a result of losses, inability to raise additional capital or otherwise, its financial condition, liquidity, and results of operations, as well as its ability to maintain regulatory compliance would be adversely affected.

First Busey and Busey Bank must meet regulatory capital requirements and maintain sufficient liquidity. The Company's ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside the Company's control, and on its financial condition and performance. Accordingly, the Company cannot guarantee that it will be able to raise additional capital if needed or on terms acceptable to the Company. If it fails to meet these capital and other regulatory requirements, its financial condition, liquidity and results of operations would be materially and adversely affected.

The Company's failure to continue to maintain capital ratios in excess of the amounts necessary to be considered "well-capitalized" for bank regulatory purposes could affect customer confidence, its ability to grow, its costs of funds and FDIC insurance costs, its ability to pay dividends to its stockholders or on outstanding stock, its ability to make acquisitions, and its business, results of operations and financial condition. Furthermore, under FDIC rules, if the Company ceases to meet the requirements to be considered a "well-capitalized" institution for bank regulatory purposes, the interest rates it pays on deposits and its ability to accept, renew or rollover deposits, particularly brokered deposits, may be restricted.

Liquidity risks could affect operations and jeopardize the Company's business, financial condition and results of operations.

Liquidity is essential to the Company's business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on liquidity. The Company's primary sources of funds consist of deposits and funds from sales of investment securities, investment maturities and sales, and cash from operations. Additional liquidity is available through repurchase agreements, brokered deposits, and the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank ("FHLB"). Access to funding sources in amounts adequate to finance or capitalize the Company's activities or on terms that are acceptable to the Company could be impaired by factors that affect it directly or the financial services industry or economy in

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general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

During periods of economic turmoil, the financial services industry and the credit markets generally may be materially and adversely affected by significant declines in asset values and depressed levels of liquidity. These and other factors could negatively affect the Company's ability to engage in routine funding and other transactions with other financial institutions, lead to market-wide liquidity problems, loss of depositor, creditor, and counterparty confidence, which could lead to losses or defaults by the Company or by other institutions. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size, limited analyst coverage, and lack of credit rating resulting from significant expense required to obtain it.

Any decline in available funding and/or capital could adversely impact the Company's ability to originate loans, invest in securities, meet its expenses, pay dividends to its stockholders, or meet deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

The soundness of other financial institutions could negatively affect the Company.

The Company's ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by the Company or by other institutions. The Company could experience growth as a result of the difficulties or failures of other banks or government-sponsored financial institutions, which would increase its funding needs.

In addition, a prolonged period of illiquidity in the secondary mortgage market, and an increase in interest rates, could reduce the demand for residential mortgage loans and increase investor yield requirements for those loans. As a result, the Company may be at higher risk of retaining a larger portion of mortgage loans than in other environments until they are sold to investors. The Company's ability to retain fixed-rate residential mortgage loans is limited and could result in a reduction of loan production volumes, which could have a material adverse effect on our financial condition and results of operations.

Competitive and Strategic Risks

The Company faces strong competition from financial service companies and other companies that offer banking and wealth management services, which could harm its business.

The Company currently conducts its banking operations in downstate Illinois, the Southwest suburbs of Chicago, Illinois, St. Louis, Missouri metropolitan area, central Indiana and southwest Florida. In addition, the Company currently offers fiduciary and wealth management services, which account for an important portion of its non-interest income. Many competitors offer the same, or a wider variety of, banking and wealth management services within the Company's market areas. These competitors include national banks, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and online lenders, and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in the Company's market areas. Also, technology and other changes have lowered barriers to entry and made it possible for non-banks, or financial technology companies, to offer products and services traditionally provided by banks. For example, customers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Customers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Increased competition in the Company's markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. Ultimately, the Company may not be able to compete successfully against current and future competitors. If the Company is unable to attract and retain banking and wealth management customers, it may be unable to grow its loan and deposit portfolios or its wealth management commissions, which could adversely affect its business, results of operations and financial condition.

Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces may outpace the Company's ability to compete.

Many well-established industries are experiencing significant disruptions created by advances in technologies and changing customer requirements, thus the ability to quickly recognize the change, and then respond and adapt becomes critical to long-term sustainability. If the Company's culture does not sufficiently encourage the timely identification and escalation of emerging risk issues, these risks

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have the potential to significantly affect our core operations and achievement of strategic objectives. Similarly, cultural resistance to change may restrict the Company from making the necessary adjustments to the business model and core operations to remain competitive. Inability to utilize data analytics and “big data” to achieve market intelligence and increase productivity and efficiency could also significantly affect our operations. Ultimately, if we fall behind in our ability to be adaptive and innovative, sustaining customer loyalty and retention may be increasingly difficult as a result of evolving customer preferences and/or demographic shifts in our existing customer base.

Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could negatively affect us.

To help us fulfill our strategic objectives and enhance our earnings, part of our strategy is to supplement organic growth by acquiring other financial institutions in our market areas and in nearby markets. As our capital position and asset quality allow, we may again supplement organic growth through acquisitions, as we did with recent acquisitions. There are risks associated with an acquisition strategy, including the following:

- We are exposed to potential asset and credit quality risks and unknown or contingent liabilities of the banks or businesses we acquire. If these issues or liabilities exceed our estimates, our earnings and financial condition may be materially and adversely affected.
- Prices at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices our management considered acceptable and expect that we will experience this condition in the future in one or more markets.
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity in order to make the transaction economically feasible. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.
- We are subject to due diligence expenses which may not result in an acquisition.
- To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or issue capital stock to the sellers in an acquisition or to third-parties to raise capital, which could dilute the interests of our existing stockholders.
- The time period in which anticipated benefits of a merger are fully realized may take longer than anticipated, or we may be unsuccessful in realizing the anticipated benefits from mergers and future acquisitions.

Accounting and Tax Risks

Financial statements are created, in part, by assumptions and methods used by management, which, if incorrect, could cause unexpected losses in the future.

The Company's financial performance is impacted by accounting principles, policies and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of assets or liabilities and financial results. Certain accounting policies are critical and require management to make difficult, subjective and complex judgments about matters that are inherently uncertain, and materially different amounts could be reported under different conditions or using different assumptions. If such estimates or assumptions underlying the Company's Consolidated Financial Statements are incorrect, the Company may experience material losses.

One such assumption and estimate is the valuation analysis of its goodwill. Although the Company's analysis does not indicate impairments exist; the Company is required to perform additional goodwill impairment assessments on at least an annual basis, and perhaps more frequently, which could result in further goodwill impairment charges. Any future goodwill impairment charge, based on the current goodwill balance or future goodwill arising out of acquisitions could have a material adverse effect on the results of operations by reducing net income or increasing net losses.

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The Company is subject to changes in accounting principles, policies or guidelines.

Periodically, agencies such as the FASB or the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of the Company's Financial Statements. These changes are beyond the Company's control, can be difficult to predict and could materially impact how the Company reports its financial condition and results of operations. Changes in these standards are continuously occurring and the implementation of such changes could have a material adverse effect on the Company's financial condition and results of operations.

In 2016, the FASB published new Current Expected Credit Loss impairment standards ("CECL") which requires recording loss estimates for the life of the instrument for loans and held-to-maturity investment securities. This is a change from the 40-year standard in which losses are recorded under the "incurred loss" concept. The CECL methodology estimates losses in consideration of a reasonably foreseeable economic forecast. Implementing this change in accounting involves compliance and operational challenges and the results may decrease capital and increase volatility in the estimate of losses. The Company will make changes to its policies, procedures and technology systems to properly account for and comply with the new methodology. CECL is not set to take effect until 2020.

The Company is subject to changes in tax law and may not realize tax benefits which could adversely affect our results of operations.

Changes in tax laws at national or state levels could have an effect on the Company's short-term and long-term earnings. Tax law changes are both difficult to predict and are beyond the Company's control. Changes in tax laws could affect the Company's earnings as well as its customers' financial positions, or both.

Deferred tax assets are designed to reduce subsequent period's income tax expense and arise, in part, as a result of net loss carry-overs, and other book accounting to tax accounting differences including the allowance for loan losses, stock-based compensation, and deferred compensation. Such items are recorded as assets when it is anticipated the tax consequences will be recorded in future periods. A valuation allowance is established against a deferred tax asset when it is unlikely the future tax effects will be realized. Significant judgment by management about matters that are by nature uncertain is required to record a deferred tax asset and establish a valuation allowance.

In evaluating the need for a valuation allowance, the Company estimated future taxable income based on management forecasts and tax planning strategies that may be available to us. If future events differ significantly from our current forecasts, it may need to establish a valuation allowance against its net deferred tax assets, which would have a material adverse effect on its results of operations and financial condition. In addition, current portions of the net deferred tax assets relate to tax effected state net operating loss carry-forward, the utilization of which may be further

limited in the event of certain material changes in the Company's ownership.

In addition, changes in ownership could further limit the Company's realization of deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods prior to the expiration of the related net operating losses and may be limited by Section 382 of the Internal Revenue Code. If the Company undergoes an ownership change, its ability to use net operating loss carry-forwards, tax credit carry-forwards or net unrealized built-in losses at the time of ownership change may be limited. The limitation may affect the amount of the Company's deferred income tax asset and, depending on the limitation, a portion of its built-in losses.

Operational Risks

The Company relies on the integrity of its operating systems and employees, and those of third-parties and certain failures of such systems or error by employees or customers could materially and adversely affect the Company's operations.

Communications and information systems are essential to conduct the Company's business, as it uses such systems to manage customer transactions and relationships, the general ledger, and deposits, loans, and investments. However, the computer systems and network infrastructure the Company uses could be vulnerable to unforeseen problems as operations are dependent upon the protection of computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, cybersecurity attacks, viruses and other disruptive problems caused by hackers. The termination of a third party software license or service agreement on which any of these systems is based could also interrupt our operations.

In addition, the Company outsources certain processing functions to third-party providers. If third-party providers encounter difficulties or if the Company has difficulty in communicating with them, the ability to adequately process and account for customer transactions may be affected and business operations may be adversely impacted. If third-party providers are unable to meet service

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expectations, experience system or processing failure, or incur disruptions affecting operations, results could adversely impact the Company. Moreover, it may be difficult for the Company to replace third party vendors, particularly vendors providing core banking and information services, in a timely manner if they are unwilling or unable to provide the Company with these services in the future or for any reason and, even if the Company is able to replace them, it may be at higher cost or result in the loss of customers. The Company follows certain due diligence procedures in reviewing and vetting its third-parties, however, it cannot control their actions.

Although the Company has procedures in place to prevent or limit the effects of any of these potential problems and intends to continue to implement security technology and establish operational procedures to prevent such occurrences, technology-related disruptions, failures and cybersecurity risks are a constant threat, both for the Company and for the third-parties it works with. Therefore, it cannot guarantee that these measures will be successful. Any failure, interruption in, or breach in security of, its computer systems and network infrastructure, as well as those of its customers engaging in internet banking activities or electronic funds transfers, could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations.

Similarly, the Company is reliant upon its employees. Such dependencies create risks for potential losses resulting from employee errors, breakdowns in process or control, failures to properly execute change management, negligence, or a number of other factors outside the Company's control. The Company maintains a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors, customer or employee fraud and other disruptions which might impact its business. In addition, the Company's Internal Audit department routinely reviews operations and high risk areas for error, deficient controls, and failure to adhere to policy.

Potential legal actions, fines and civil money penalties could arise as results of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity.

A breach in the security of the Company's systems could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and create significant financial and legal exposure for the Company.

Although the Company devotes significant resources to maintain and regularly upgrade systems and processes designed to protect the security of its computer systems, software, networks and other technology assets, these measures do not provide absolute security. Several financial services institutions, government agencies, retailers and other companies have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks and other means.

Some companies in the United States have experienced well-publicized attacks from technically sophisticated and well-resourced third-parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These “denial-of-service” attacks may not have breached data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior. Even if not directed at the Company, attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of the Company’s businesses.

Threats to security also exist in the processing of customer information through various other third-parties, their personnel, and their use of subcontractors. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms the Company and its third-party service providers use to encrypt and protect customer transaction data. Such cyber incidents may go undetected for a period of time. An inability by our third-party providers to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our clients, loss of business or clients, damage to our reputation, the incurrence of additional expenses, additional regulatory scrutiny or penalties or exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The Company also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding the Company’s customers through various third-parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Because card transactions involve third-parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber-attacks affecting any of these third-parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. Cyber-attacks or other breaches, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on the Company’s business.

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Penetration or circumvention of the Company's security systems could result in serious negative consequences for the Company, including significant disruption of the Company's operations, misappropriation of confidential information of the Company or that of its customers or employees, or damage to computers or systems of the Company and those of its customers and counterparties. Such events could result in violations of applicable privacy and other laws, financial loss to the Company or its customers, loss of confidence in the Company's security measures, customer dissatisfaction, significant litigation exposure and harm to the Company's reputation, all of which would adversely affect the Company.

These risks have increased for all financial institutions globally as new technologies, the use of the Internet and telecommunications technologies, including mobile devices, to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. Despite the Company's significant investment in security resources and its continued efforts to prevent or limit the effects of potential threats, it is possible that the Company may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security-related attacks can originate from a wide variety of sources, including organized crime, hackers, terrorists, activists, and other external parties, including parties sponsored by hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of the Company's systems to disclose sensitive information in order to gain access to the Company's data or that of its customers. These risks may increase in the future as the Company increases its mobile payments, internet-based product offerings, and expand its internal usage of web-based products and applications.

Customer or employee fraud may affect operations, result in significant financial loss, and have an adverse impact on the Company's reputation.

Misconduct could subject the Company to financial losses or regulatory sanctions and seriously harm its reputation. Misconduct by employees and customers could include hiding unauthorized activities, conducting improper or unauthorized activities or improper use of confidential information. It is not possible to prevent all errors and misconduct, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases.

Customer or other outsiders may also attempt to perpetuate fraud or scams in the form of identity theft, money laundering, fraudulent or altered deposits, or use of counterfeit instruments, as a few examples. The Company also faces fraud risk associated with the origination of loans, including the intentional misstatement of information in property appraisals or other underwriting documentation provided to it by customers or by third-parties. Customers may expose the Company to certain fraud risks associated with the compromise of their computing systems or accounts, as well.

Should the Company's internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, such failures could adversely affect its business, results of operations and financial condition. Both the number and sophistication level of attempted fraudulent transactions are increasing. Should our internal controls fail to prevent or detect an occurrence of fraud, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's ability to attract and retain management and key personnel may affect future growth and earnings and legislation imposing new compensation restrictions could adversely affect its ability to do so.

Much of the Company's success and growth has been influenced strongly by its ability to attract and retain management experienced in banking and financial services and familiar with the communities in its market areas. The Company's ability to retain executive officers, current management teams, lending and retail banking officers, and administrative staff of its subsidiaries continues to be important to the successful implementation of its strategy. In addition, the Company's ability to retain key personnel at acquired financial institutions is vitally important to the Company's strategy to grow through mergers and acquisitions. Also critical is the Company's ability to attract and retain qualified staff with the appropriate level of experience and knowledge about its market areas so as to implement its community-based operating strategy. The unexpected loss of services of key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on the Company's business, financial condition, and results of operation.

Damage resulting from negative publicity could harm the Company's reputation and adversely impact its business and financial condition.

The Company's ability to attract and maintain customers, investors, and employees is contingent upon maintaining trust. Negative public opinion could result from the Company's actual or alleged conduct in a number of activities, including, but not limited to, employee misconduct, a failure or perceived failure to deliver appropriate standards of service and quality or to treat customers fairly, faulty lending practices, compliance failures, security breaches, corporate governance, sharing or inadequate protection of customer information, failure to comply with laws or regulations, and actions taken by government regulators and community organizations in

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response to that conduct. The results of such actual or alleged misconduct could include customer dissatisfaction, inability to attract potential acquisition prospects, litigation, and heightened regulatory scrutiny, all of which could lead to lost revenue, higher operating costs and harm to the Company's reputation. No assurance can be made, despite the cost or efforts made by the Company to address the issues arising from reputational harm, that results could not adversely affect the Company's business, financial condition, and results of operations.

Severe weather, natural disasters, acts of terrorism or war or other adverse external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of terrorism or war and other adverse external events could have a significant impact on the Company's ability to conduct business. In addition, such events could affect the stability of the Company's deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the financial condition and results of operation.

The Company's framework for managing risks may not be effective in mitigating risk and loss.

The Company's risk management framework seeks to mitigate risk and loss. It has established processes and procedures intended to identify, measure, monitor, report, and analyze the types of risk to which it is subject, compliance risk and reputational risk, among others. However, as with any risk management framework, there are inherent limitations. Risks may exist, or emerge in the future, that have not been appropriately identified or anticipated. As it continues to grow, the Company's ability to successfully identify and manage the risks it faces is an important factor that can significantly impact results. If its risk management framework proves ineffective, the Company could suffer unexpected losses and could be materially adversely affected.

If securities or industry analysts do not publish or cease publishing research reports about us, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, the price of our stock could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If there is limited or no securities or industry analyst coverage of us, the market price for our stock would be negatively impacted. Moreover, if any of the analysts who elect to cover us downgrade our common stock, provide more favorable relative recommendations about our competitors or if our operating results or prospects do not meet their expectations, the market price of our common stock may decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us

regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may seek to implement new lines of business or offer new products, services or delivery channels within existing lines of business in our current markets or new markets. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

First Busey and Busey Bank's headquarters are located at 100 West University Avenue, Champaign, Illinois. FirstTech's headquarters are located at 130 North Water Street, Decatur, Illinois. These facilities, which are owned by the Company, house the executive and primary administrative offices of each respective entity. The Company also owns or leases other facilities, such as banking centers of Busey Bank, for business operations.

First Busey and its subsidiaries own or lease all of the real property and/or buildings on which each respective entity is located. The Company considers its properties to be suitable and adequate for its present needs.

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Item 3. Legal Proceedings

As part of the ordinary course of business, First Busey and its subsidiaries are parties to litigation that is incidental to their regular business activities.

There is no material pending litigation, other than ordinary routine litigation incidental to its business, in which First Busey or any of its subsidiaries is involved or of which any of their property is the subject. Furthermore, there is no pending legal proceeding that is adverse to First Busey in which any director, officer or affiliate of First Busey, or any associate of any such director or officer, is a party, or has a material interest.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

First Busey's common stock is traded on The Nasdaq Global Select Market under the symbol "BUSE."

The Company's board of directors and management are currently committed to continue paying regular cash dividends; however, no guarantee can be given with respect to future dividends, as they are dependent on certain regulatory restrictions, future earnings, capital requirements and financial condition of the Company and its subsidiaries. See "Item 1. Business—Supervision, Regulation and Other Factors—Regulation and Supervision of Company—Dividend Payments and Regulation" and "Item 1. Business—Supervision, Regulation and Other Factors—Regulation and Supervision of the Banks—Dividend Payments" for further discussion of these matters.

As of February 27, 2019, First Busey Corporation had 55,600,184 shares of common stock outstanding held by 3,034 holders of record. Additionally, there were an estimated 9,855 beneficial holders whose stock was held in street name by brokerage houses and nominees as of that date.

Stock Repurchases

On February 3, 2015, First Busey's board of directors authorized the Company to repurchase up to an aggregate of 666,667 shares of its common stock. The repurchase plan has no expiration date and replaced the prior repurchase plan originally approved in 2008. There were no purchases made by or on behalf of First Busey of its common stock shares during the quarter ended December 31, 2018. At December 31, 2018, the Company had 333,334 shares that may still be purchased under the plan.

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Performance Graph

The following graph compares First Busey's performance, as measured by the change in price of its common stock plus reinvested dividends, with the Nasdaq Composite and the SNL Midwest Bank Index for the five years ended December 31, 2018.

Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
First Busey Corporation	\$ 100.00	\$ 116.00	\$ 126.51	\$ 194.86	\$ 194.14	\$ 163.30
SNL Midwest Bank Index	100.00	108.71	110.36	147.46	158.46	135.31
Nasdaq Composite	100.00	114.83	122.99	134.03	173.87	168.99

The banks in the SNL Midwest Bank Index represent all publicly traded banks, thrifts or financial service companies located in Iowa, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota and Wisconsin.

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Item 6. Selected Financial Data

Selected Consolidated Financial Information

The following selected financial data (dollars in thousands, except per share data), as of and for each of the periods indicated, has been derived from First Busey's audited Consolidated Financial Statements and the results of operations for each period. This financial data should be read in conjunction with the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in this Annual Report. The per common share data provided below has been adjusted to reflect First Busey's one-for-three reverse stock split, which became effective on September 8, 2015 (the "Reverse Stock Split"). First Busey's periodic reports filed prior to the Reverse Stock Split have not been revised to reflect the Reverse Stock Split.

	2018	2017	2016	2015	2014
Balance Sheet Items					
Securities available for sale	\$ 697,685	\$ 872,682	\$ 759,811	\$ 834,838	\$ 759,065
Securities held to maturity	608,660	443,550	47,820	49,832	2,373
Loans held for sale	25,895	94,848	256,319	9,351	10,400
Portfolio loans	5,568,428	5,519,500	3,878,900	2,627,739	2,405,290
Allowance for loan losses	50,648	53,582	47,795	47,487	47,453
Total assets	7,702,357	7,860,640	5,425,170	3,998,976	3,665,607
Tangible assets(1)	7,410,346	7,563,606	5,311,271	3,969,001	3,640,903
Total deposits	6,249,321	6,125,965	4,374,298	3,289,106	2,900,848
Short-term debt(2)	185,796	524,566	264,157	172,972	198,893
Long-term debt	50,000	50,000	80,000	80,000	50,000
Senior notes, net of unamortized issuance costs	39,539	39,404	—	—	—
Subordinated notes, net of unamortized issuance costs	59,147	64,715	—	—	—
Junior subordinated debt owed to unconsolidated trusts	71,155	71,008	70,868	55,000	55,000
Stockholders' equity	994,964	935,003	594,314	373,186	433,639
Common stockholders' equity	994,964	935,003	594,314	373,186	360,975
	702,953	637,969	480,415	343,211	336,271

Tangible common
stockholders' equity(3)

Results of Operations

Interest income	\$ 286,033		\$ 224,302		\$ 164,889		\$ 118,022		\$ 108,075	
Interest expense	44,627		20,936		10,229		6,207		6,499	
Net interest income	241,406		203,366		154,660		111,815		101,576	
Provision for loan losses	4,429		5,303		5,550		1,600		2,000	
Net income available for common stockholders	98,928		62,726		49,694		38,306		32,047	
Per Share Data										
Diluted earnings	\$ 2.01		\$ 1.45		\$ 1.40		\$ 1.32		\$ 1.10	
Cash dividends	0.80		0.72		0.68		0.62		0.57	
Book value(4)	20.36		19.21		15.54		13.01		12.47	
Tangible book value(5)	14.21		12.88		12.37		11.86		11.52	
Closing stock price	24.54		29.94		30.78		20.63		19.53	
Other Information										
Return on average assets	1.28	%	1.00	%	1.00	%	0.98	%	0.91	%
Return on average common equity	10.36	%	8.48	%	9.59	%	10.41	%	9.11	%
Net interest margin(6)	3.45	%	3.58	%	3.42	%	3.10	%	3.15	%
Equity to assets ratio(7)	12.33	%	11.75	%	10.42	%	9.39	%	9.94	%
Dividend payout ratio(8)	39.80	%	49.66	%	48.57	%	46.97	%	51.82	%

(1) Total assets less goodwill and tax effected intangible assets, a non-GAAP financial measure.

(2) Includes federal funds purchased, securities sold under agreements to repurchase, and short-term borrowings.

(3) Common equity less tax effected goodwill and intangible assets, a non-GAAP financial measure.

(4) Total common equity divided by shares outstanding as of period end.

(5) Total common equity less goodwill and intangible assets divided by shares outstanding as of period end.

(6) Tax-equivalent net interest income divided by average earning assets.

(7) Average common equity divided by average total assets.

(8) Ratio calculated using only common stock.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of the financial condition as of December 31, 2018 and 2017 and the results of operations for the years ended December 31, 2018, 2017, and 2016 of First Busey and its subsidiaries. It should be read in conjunction with "Item 1. Business," "Item 6. Selected Financial Data," the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements included in this Annual Report.

Critical Accounting Estimates

First Busey has established various accounting policies that govern the application of GAAP in the preparation of its Consolidated Financial Statements. Significant accounting policies are described in "Note 1. Significant Accounting Policies" in the Notes to the Consolidated Financial Statements.

Critical accounting estimates are those that are critical to the portrayal and understanding of First Busey's financial condition and results of operations and require management to make assumptions that are difficult, subjective or complex. These estimates involve judgments, assumptions and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending on the severity of such changes, the possibility of a materially different financial condition or materially different results of operations is a reasonable likelihood. Further, changes in accounting standards could impact the Company's critical accounting estimates. The following policies could be deemed critical:

Fair Value of Investment Securities. The fair values of investment securities are measurements from an independent pricing service and are based on observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. The use of different judgments and estimates to determine the fair value of securities could result in a different fair value estimate.

Realized securities gains or losses are reported in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Declines in the fair value of debt securities below their amortized cost are evaluated to determine whether such declines are temporary or OTTI. If the Company (a) has the intent to sell a debt security or (b) will more-likely-than-not be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire decline in fair value as an OTTI loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The decline in fair value is separated into the amount of impairment related to the credit loss and the amount of impairment related to all other factors. The amount of the impairment related to credit loss is recognized in earnings, and the amount of impairment related to all other factors is recognized in other comprehensive income (loss).

Fair Value of Assets Acquired and Liabilities Assumed in Business Combinations. Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair value on the date of acquisition. Fair values are determined based on the definition of “fair value” defined in FASB ASC Topic 820 — Fair Value Measurement as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

The fair value of a loan portfolio acquired in a business combination generally requires greater levels of management estimates and judgment than other assets acquired or liabilities assumed. At the date of acquisition, when loans have evidence of credit deterioration since origination and it is probable that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. At each future reporting date, the Company re-estimates the expected cash flows of the loans. Subsequent decreases in the expected cash flows will generally result in a provision for loan losses. Subsequent increases in the expected cash flows will generally be offset against the allowance for loan losses to the extent an allowance has been established or will be recognized as interest income prospectively.

Goodwill. Goodwill represents the excess of purchase price over the fair value of net assets acquired using the acquisition method of accounting. Determining the fair value often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Goodwill is not amortized, instead, the Company assess the potential for impairment on an annual basis or more frequently if events and circumstances indicate that goodwill might be impaired.

Allowance for Loan Losses. First Busey has established an allowance for loan losses which represents its estimate of the probable losses inherent in the loan portfolio as of the date of the Consolidated Financial Statements and reduces the total loans outstanding by an estimate of uncollectible loans. Loans deemed uncollectible are charged against and reduce the allowance. A provision for loan losses is charged to current expense and acts to replenish the allowance for loan losses in order to maintain the allowance at a level

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that management deems adequate. Acquired loans from business combinations with uncollected principal balances are carried net of a fair value adjustment for credit and interest rates. These loans are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew, it is generally necessary to establish an allowance which represents an amount that, in management's opinion, will be adequate to absorb probable credit losses in such loans.

To determine the adequacy of the allowance for loan losses, a formal analysis is completed quarterly to assess the risk within the loan portfolio. This assessment is reviewed by the Company's senior management. The analysis includes a review of historical performance, dollar amount and trends of past due loans, dollar amount and trends in non-performing loans, certain impaired loans, and loans identified as sensitive assets. Sensitive assets include non-accrual loans, past-due loans, loans on First Busey's watch loan reports and other loans identified as having probable potential for loss.

The allowance consists of specific and general components. The specific component considers loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when either the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying amount of that loan. The general component covers non-classified loans and classified loans not considered impaired, and is based on historical loss experience adjusted for qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss experience.

A loan is considered to be impaired when, based on current information and events, it is probable First Busey will not be able to collect all principal and interest amounts due according to the contractual terms of the loan agreement. When a loan becomes impaired, management generally calculates the impairment based on the fair value of the collateral, if the loan is collateral-dependent or based on the discounted cash flows of the loan at the loan's effective interest rate. The amount of impairment and any subsequent changes are recorded through a charge to the provision for loan losses. For collateral dependent loans, the allowance is based upon the estimated fair value, net of selling costs, of the applicable collateral. The required allowance or actual loss on an impaired loan could differ significantly if the ultimate fair value of the collateral is significantly different from the fair value estimate.

Executive Summary

Operating Results (dollars in thousands)

	Years Ended December 31,	
	2018	2017
Net income by operating segment:		
Banking	\$ 97,369	\$ 65,704

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Remittance Processing	3,710	2,007
Wealth Management	9,372	6,229
Other	(11,523)	(11,214)
Net income	\$ 98,928	\$ 62,726

Operating Performance

The Company recorded net income of \$98.9 million for the year ended December 31, 2018, an increase of \$36.2 million compared to \$62.7 million for the year ended 2017. Earnings per diluted common share were \$2.01 for the year ended December 31, 2018 as compared to \$1.45 for the year ended December 31, 2017. Adjusted net income(1) for the year ended December 31, 2018 was \$103.5 million, or \$2.10 per diluted common share, as compared to \$75.7 million, or \$1.75 per diluted common share for 2017. The 2018 annual results were favorably impacted by the prior year acquisitions of First Community and Mid Illinois.

On January 31, 2019, the Company completed its acquisition of Banc Ed, which is identified as a “subsequent event” in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. The operating results of Banc Ed are not included in this Annual Report on Form 10-K or in the Company’s Consolidated Financial Statements included herein.

The Company views certain non-operating items including, but not limited to, acquisition and restructuring charges and the 2017 tax adjustment related to the TCJA as adjustments to net income. Non-operating adjustments for 2018 include \$3.7 million of pre-tax acquisition costs, \$0.8 million in pre-tax fixed asset impairments and \$1.1 million in pre-tax other restructuring costs. The reconciliation of non-GAAP measures (including adjusted net income, adjusted return on average assets, adjusted net interest margin, adjusted efficiency ratio, tangible common equity to tangible assets, tangible book value per share and return on average tangible common equity), which the Company believes facilitates the assessment of its financial results and peer comparability, is included in tabular form in this Annual Report on Form 10-K. See Non-GAAP Financial Information.

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

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Revenues from trust fees, commissions and brokers' fees, and remittance processing activities represented 50.4% of the Company's non-interest income in 2018, providing a balance to revenue from traditional banking activities. Two of the Company's acquisitions, Pulaski and First Community, had no legacy fee income in these businesses; therefore, the addition of First Busey's fee-based service offerings in the respective acquired bank markets is expected to continue providing attractive growth opportunities in future periods.

Asset Quality

As of December 31, 2018, the Company reported non-performing loans of \$36.6 million compared to \$27.4 million as of December 31, 2017. Non-performing loans were 0.66% of total portfolio loans as of December 31, 2018 compared to 0.50% as of December 31, 2017. With a continued commitment to asset quality and the strength of our balance sheet, near-term loan losses are expected to remain generally low. While these results are encouraging, asset quality metrics can be generally influenced by market-specific economic conditions, and specific measures may fluctuate from period to period. The key metrics are as follows (dollars in thousands):

	December 31, 2018		December 31, 2017	
Portfolio loans	\$ 5,568,428		\$ 5,519,500	
Allowance for loan losses	50,648		53,582	
Non-performing loans				
Non-accrual loans	34,997		24,624	
Loans 90+ days past due	1,601		2,741	
Loans 30-89 days past due	7,121		12,897	
Other non-performing assets	376		1,283	
Allowance as a percentage of non-performing loans	138.4	%	195.8	%
Allowance for loan losses to portfolio loans	0.91	%	0.97	%

Results of Operation — Three Years Ended December 31, 2018

Net Interest Income

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percent of average earning assets. Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes an income tax rate of 21% in 2018 and 35% in 2017 and 2016. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax favorable assets. After factoring in the tax favorable effects of these

assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

The following tables (dollars in thousands) show our Consolidated Average Balance Sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for the interest-bearing liabilities, and the related interest rates for the periods shown. The tables also show, for the periods indicated, a summary of the changes in interest earned and interest expense resulting from changes in volume and rates for the major components of interest-earning assets and interest-bearing liabilities. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on changes due to rate and changes due to volume. All average information is provided on a daily average basis.

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Average Balance Sheets and Interest Rates

	Years Ended December 31,								Yield/ Rate	2016 Average Balance	Income/ Expense	Yield/ Rate
	2018 Average Balance	Income/ Expense	Yield/ Rate	2017 Average Balance	Income/ Expense	Yield/ Rate	2016 Average Balance	Income/ Expense				
bearing deposits and securities sold to : Government securities securities of political securities(1) securities held for sale securities(1),	\$ 134,035	\$ 2,491	1.86 %	\$ 132,464	\$ 1,444	1.09 %	\$ 233,804	\$ 1,093	0.4			
earning (3)	152,086	2,501	1.64 %	148,116	2,112	1.43 %	185,855	2,143	1.1			
due from	284,262	7,386	2.60 %	243,403	7,219	2.97 %	212,559	6,102	2.8			
and	934,112	23,654	2.53 %	573,230	12,960	2.26 %	439,470	9,397	2.1			
due from	29,666	1,241	4.18 %	119,936	4,479	3.73 %	164,728	5,997	3.6			
and	5,533,549	251,018	4.54 %	4,567,259	199,744	4.37 %	3,394,352	143,650	4.2			
due from	\$ 7,067,710	\$ 288,291	4.08 %	\$ 5,784,408	\$ 227,958	3.94 %	\$ 4,630,768	\$ 168,382	3.6			
and	105,114			92,184			70,785					
due from	119,388			93,025			74,919					
and	(53,789)			(50,924)			(47,294)					
due from	503,719			375,412			244,735					
due from	\$ 7,742,142			\$ 6,294,105			\$ 4,973,913					
bearing deposits and money market deposits deposits from deposits: deposits and	\$ 1,257,491	\$ 4,532	0.36 %	\$ 1,103,245	\$ 1,980	0.18 %	\$ 924,078	\$ 810	0.0			
	1,958,435	6,968	0.36 %	1,729,492	3,805	0.22 %	1,392,335	2,233	0.1			
	1,491,363	21,101	1.41 %	927,736	7,147	0.77 %	721,124	4,022	0.5			
	234,587	1,626	0.69 %	213,531	978	0.46 %	181,644	393	0.2			

ents											
m debt(5)	81,438	1,536	1.89	%	84,201	1,096	1.30	%	99,294	641	0.6
bordinated	152,638	5,614	3.68	%	128,417	3,404	2.65	%	80,000	220	0.2
ed to											
idated											
	71,065	3,250	4.57	%	70,922	2,526	3.56	%	65,540	1,910	2.9
earing											
	\$ 5,247,017	\$ 44,627	0.85	%	\$ 4,257,544	\$ 20,936	0.49	%	\$ 3,464,015	\$ 10,229	0.3
est											
			3.23	%			3.45	%			3.3
est-bearing											
	1,492,242				1,252,363				949,271		
ilities	47,934				44,373				42,375		
ers' equity	954,949				739,825				518,252		
ilities and											
ers' equity	\$ 7,742,142				\$ 6,294,105				\$ 4,973,913		
income /											
ssets(1),											
	\$ 7,067,710	\$ 288,291	4.08	%	\$ 5,784,408	\$ 227,958	3.94	%	\$ 4,630,768	\$ 168,382	3.6
xpense /											
ssets											
	\$ 7,067,710	\$ 44,627	0.63	%	\$ 5,784,408	\$ 20,936	0.36	%	\$ 4,630,768	\$ 10,229	0.2
est											
)		\$ 243,664	3.45	%		\$ 207,022	3.58	%		\$ 158,153	3.4

(1) On a tax-equivalent basis, assuming a federal income tax rate of 21% in 2018 and 35% in 2017 and 2016.

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

(3) Interest income includes a tax-equivalent adjustment of \$2.3 million, \$3.7 million and \$3.5 million for 2018, 2017 and 2016, respectively.

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

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

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Average Balance Sheets and Interest Rates (continued)

Changes in Net Interest Income:

	Years Ended December 31, 2018, 2017 and 2016						
	Year 2018 vs. 2017 Change due to			Year 2017 vs. 2016 Change due to			
	Average Volume	Average Yield/Rate	Total Change	Average Volume	Average Yield/Rate	Total Change	
Increase (decrease) in interest income:							
Interest-bearing bank deposits and federal funds sold	\$ 7	\$ 1,040	\$ 1,047	\$ (630)	\$ 981	\$ 351	
Investment securities:							
U.S. Government obligations	58	331	389	(483)	452	(31)	
Obligations of state and political subdivisions	1,125	(958)	167	909	208	1,117	
Other securities	8,982	1,712	10,694	2,998	565	3,563	
Loans held for sale	(3,720)	482	(3,238)	(1,669)	151	(1,518)	
Portfolio loans	43,598	7,676	51,274	88,186	(32,092)	56,094	
Change in interest income	\$ 50,050	\$ 10,283	\$ 60,333	\$ 89,311	\$ (29,735)	\$ 59,576	
Increase (decrease) in interest expense:							
Interest-bearing transaction deposits	\$ 311	\$ 2,241	\$ 2,552	\$ 183	\$ 987	\$ 1,170	
Savings and money market deposits	355	2,808	3,163	574	998	1,572	
Time deposits	5,870	8,084	13,954	1,341	1,784	3,125	
Short-term borrowings:							
Federal funds purchased and repurchase agreements	103	545	648	79	506	585	
Other	(37)	477	440	(110)	565	455	
Long-term debt	723	1,487	2,210	208	2,976	3,184	
Junior subordinated debt owed to unconsolidated trusts	5	719	724	166	450	616	
Change in interest expense	\$ 7,330	\$ 16,361	\$ 23,691	\$ 2,441	\$ 8,266	\$ 10,707	
Increase (decrease) in net interest income	\$ 42,720	\$ (6,078)	\$ 36,642	\$ 86,870	\$ (38,001)	\$ 48,869	
Percentage increase in net interest income over prior			17.7	%		30.9	%

period

Earning Assets, Sources of Funds, and Net Interest Margin

The Consolidated Average Balance Sheets and interest rates were impacted by the 2017 acquisitions of First Community and Mid Illinois, along with organic growth. Total average interest-earning assets increased \$1.3 billion, or 22.2%, to \$7.1 billion in 2018, as compared to \$5.8 billion in 2017. Total average interest-earning assets increased \$1.2 billion, or 24.9%, to \$5.8 billion in 2017, as compared to \$4.6 billion in 2016. Average loans increased each year due to acquisitions and organic growth. Loans generally have notably higher yields compared to interest-bearing bank deposits and investment securities and our loan growth contributed to a positive effect on net interest margin.

Total average interest-bearing liability balances increased \$989.5 million, or 23.2%, to \$5.2 billion in 2018 as compared to \$4.3 billion in 2017. Total average interest-bearing liability balances increased \$793.5 million, or 22.9%, to \$4.3 billion in 2017, as compared to \$3.5 billion in 2016. Average noninterest-bearing deposits increased \$239.9 million, or 19.2%, to \$1.5 billion in 2018, as compared to \$1.3 billion in 2017. Average noninterest-bearing deposits increased \$303.1 million, or 31.9%, to \$1.3 billion in 2017, as compared to \$949.3 million in 2016. Average non-interest bearing deposits represented 24.1% of total average deposits in 2018. The Company remains strongly core deposit funded with total average deposits in 2018 representing 91.3% of total average liabilities, with solid liquidity and significant market share in the communities we serve.

Interest income, on a tax-equivalent basis, increased \$60.3 million, or 26.5%, to \$288.3 million in 2018, from \$228.0 million in 2017. Interest income, on a tax-equivalent basis, increased \$59.6 million, or 35.4%, to \$228.0 million in 2017, from \$168.4 million in 2016. The interest income increase for both years related primarily to increases in loan volumes.

Interest expense increased during 2018 by \$23.7 million to \$44.6 million from \$20.9 million in 2017. Interest expense increased during 2017 by \$10.7 million to \$20.9 million from \$10.2 million in 2016. The increase in 2018 was primarily the result of the increase in deposits and borrowings related to acquisitions and rising interest rates.

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Net interest income, on a tax-equivalent basis, increased \$36.6 million, or 17.7%, in 2018 as compared to 2017. Net interest income, on a tax-equivalent basis, increased \$48.9 million, or 30.9%, in 2017 as compared to 2016. The Federal Open Market Committee announced that the federal funds rate increased from 1.50% to 1.75% on March 21, 2018, from 1.75% to 2.00% on June 13, 2018, from 2.00% to 2.25% on September 26, 2018 and from 2.25% to 2.50% on December 19, 2018, for a combined increase of 100 basis points. For comparison, the federal funds rate increased 75 basis points, from 0.75% to 1.50%, in 2017. The Company expects the increases in interest rates to be modestly favorable to net interest income in 2019; however, rising interest rates could result in decreased demand for first mortgages as well as mortgage refinancing, activities which contribute to a portion of the Company's mortgage revenue.

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 3.45% in 2018, which included a tax-equivalent adjustment of \$2.3 million, compared to 3.58% in 2017, which included a tax-equivalent adjustment of \$3.7 million, and increased from 3.42% in 2016, with a tax-equivalent adjustment of \$3.5 million. Net of purchase accounting accretion and amortization(2), the net interest margin for the year 2018 was 3.30%, a decrease from 3.36% for the year 2017 and an increase from 3.24% for the year 2016.

The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 3.23% in 2018 compared to 3.45% in 2017 and 3.34% in 2016, each on a tax-equivalent basis.

The quarterly net interest margins were as follows:

	2018	2017	2016
First Quarter	3.52 %	3.53 %	3.10 %
Second Quarter	3.51 %	3.47 %	3.32 %
Third Quarter	3.41 %	3.60 %	3.51 %
Fourth Quarter	3.38 %	3.68 %	3.63 %

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies.

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

Non-interest Income (dollars in thousands)

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	As of December 31,		\$	%		\$	%		%	
	2018	2017								Change
Trust fees	\$ 27,184	\$ 23,665	\$ 3,519	14.9	%	\$ 23,665	\$ 20,302	\$ 3,363	16.6	%
Commissions and brokers' fees, net	3,790	3,372	418	12.4	%	3,372	2,839	533	18.8	%
Remittance processing	14,345	11,427	2,918	25.5	%	11,427	11,255	172	1.5	%
Fees for customer services	28,879	25,841	3,038	11.8	%	25,841	23,253	2,588	11.1	%
Mortgage revenue	5,545	11,140	(5,595)	(50.2)	%	11,140	11,952	(812)	(6.8)	%
Security gains, net	331	1,143	(812)	(71.0)	%	1,143	1,232	(89)	(7.2)	%
Other income	9,919	7,886	2,033	25.8	%	7,886	4,336	3,550	81.9	%
Total non-interest income	\$ 89,993	\$ 84,474	\$ 5,519	6.5	%	\$ 84,474	\$ 75,169	\$ 9,305	12.4	%

Total non-interest income of \$90.0 million increased \$5.5 million from \$84.5 million in 2018. Total non-interest income of \$84.5 million increased \$9.3 million from \$75.2 million in 2017. The 2018 increases reflect organic growth as well as the 2017 acquisitions of First Community and Mid Illinois, offset by a decline in mortgage revenue. The 2016 results were inclusive of Pulaski since April 30, 2016.

Combined wealth management revenue, consisting of trust fees and commissions and broker's fees, net, increased to \$31.0 million in 2018 compared to \$27.0 million in 2017. The 2018 increase was a result of market expansion and increased assets under care. Combined wealth management revenue, consisting of trust fees and commissions and broker's fees, net, of \$27.0 million in 2017 increased from \$23.1 million in 2016. The 2017 increase was a result of new assets under care and market performance. Two of the Company's acquisitions, Pulaski and First Community, had no legacy fee income in these businesses; therefore, the addition of First Busey's fee-based service offerings in the respective acquired bank markets is expected to provide attractive growth opportunities in future periods. Combined wealth management revenue includes professional farm management and brokerage services provided to the agricultural industry.

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Remittance processing revenue relates to our payment processing company, FirsTech. Remittance processing revenue of \$14.3 million in 2018 increased 25.5% compared to \$11.4 million in 2017. Remittance processing revenue of \$11.4 million in 2017 increased 1.5% compared to \$11.3 million in 2016. The positive 2018 results are a reflection of new customer activity and volume increases from existing customers. The 2017 increase was due to growth in various remittance processes, including lockbox and continued growth in the online and mobile service revenues. Remittance processing adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and nationally.

Fees for customer services were impacted by acquisition activity and increased to \$28.9 million in 2018 as compared to \$25.8 million in 2017, and \$23.3 million in 2016. Evolving regulation, product changes and changing behaviors by our client base may impact the revenue derived from charges on deposit accounts.

Mortgage revenue of \$5.5 million in 2018 decreased \$5.6 million compared to \$11.1 million in 2017. 2018 results reflect the realignment of mortgage origination resources to the Company's branch market areas through the sale of certain mortgage origination offices in the fourth quarter of 2017 as well as general declines in volume in the mortgage market. Mortgage revenue of \$11.1 million in 2017 decreased \$0.8 million compared to \$12.0 million in 2016 due to lower mortgage volumes.

Other income of \$9.9 million in 2018 increased as compared to \$7.9 million in 2017 and as compared to \$4.3 million in 2016 across multiple revenue sources, including commercial loan sales gains and swap origination fee income.

Non-interest Expense (dollars in thousands)

	As of December 31,		\$ Change	% Change		\$ Change	% Change			
	2018	2017								2017
Salaries, wages and employee										
benefits	\$ 107,844	\$ 95,633	\$ 12,211	12.8	%	\$ 95,633	\$ 78,397	\$ 17,236	22.0	%
Net occupancy expense of										
premises	14,803	13,830	973	7.0	%	13,830	11,633	2,197	18.9	%
Furniture and	7,233	7,089	144	2.0	%	7,089	6,591	498	7.6	%

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equipment expenses										
Data processing	16,383	16,716	(333)	(2.0)	%	16,716	18,229	(1,513)	(8.3)	%
Amortization of intangible assets	5,854	5,245	609	11.6	%	5,245	4,438	807	18.2	%
Other expense	40,926	35,913	5,013	14.0	%	35,913	28,574	7,339	25.7	%
Total non-interest expense	\$ 193,043	\$ 174,426	\$ 18,617	10.7	%	\$ 174,426	\$ 147,862	\$ 26,564	18.0	%
Income taxes	\$ 34,999	\$ 45,385	\$ (10,386)	(22.9)	%	\$ 45,385	\$ 26,723	\$ 18,662	69.8	%
Effective rate on income taxes	26.1	%	42.0	%		42.0	%	35.0	%	
Efficiency ratio	56.2	%	58.3	%		58.3	%	61.8	%	
Full-time equivalent employees as of period-end	1,270	1,347				1,347	1,295			

Total non-interest expense of \$193.0 million in 2018 increased by \$18.6 million as compared to \$174.4 million in 2017, and increased by \$26.5 million in 2017 as compared to \$147.9 million in 2016.

Salaries, wages and employee benefits increased to \$107.8 million in 2018 as compared to \$95.6 million in 2017 and \$78.4 million in 2016. The increases in salaries, wages and employee benefits primarily relates to fluctuations in the number of employees resulting from acquisitions. The Company recorded non-recurring salaries, wages and employee benefits expense of \$2.3 million in 2018, \$1.6 million in 2017 and \$2.6 million in 2016.

Combined net occupancy expense of premises and furniture and equipment expenses of \$22.0 million in 2018 increased as compared to \$20.9 million in 2017 and increased in 2017 as compared to \$18.2 million in 2016. This increase was largely due to acquisitions, which in 2017 resulted in 21 additional banking centers. We continue to evaluate our banking center network and five banking centers were closed in the first quarter of 2018.

Data processing expense decreased 2.0% in 2018 to \$16.4 million as compared to \$16.7 million in 2017 and decreased 8.3% in 2017 as compared to \$18.2 million in 2016. Variances are largely related to deconversion expenses related to acquisitions and to efficiencies realized as the Company completes integrations.

Amortization of intangible assets were \$5.9 million in 2018 as compared to \$5.2 million in 2017 and \$4.4 million in 2016 as a result of acquisitions.

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Other expense of \$40.9 million in 2018 increased as compared to \$35.9 million in 2017 and as compared to \$28.6 million in 2016. Variances are across multiple expense categories, including professional and legal fees related to acquisitions, fluctuations in gains and losses on OREO sales, business development and marketing and acquisition-related check card service expense.

The effective income tax rate, or income taxes divided by income before taxes, was 26.1%, 42.0% and 35.0% for the years ended December 31, 2018, 2017 and 2016, respectively. The 2017 rate was impacted by a one-time, non-cash charge of \$8.1 million due to the revaluation of the Company's net deferred tax position following the enactment of the TCJA.

In general and not including the 2017 TCJA impact, rates were lower than the combined federal and state statutory rate of approximately 28% in 2018 and 40% in 2017 and 2016 due to fairly stable amounts of tax preferred interest income, such as municipal bond interest and bank owned life insurance income. The Company continues to monitor evolving federal and state tax legislation and its potential impact on operations on an ongoing basis. Effective July 1, 2017, the combined Illinois corporate income tax rate and replacement tax rate increased from 7.75% to 9.50%. Effective January 1, 2018 in connection with the TCJA, the corporate federal tax rate was reduced from 35.0% to 21.0%.

The efficiency ratio⁽³⁾ is calculated as total non-interest expense, less amortization charges, as a percentage of tax-equivalent net interest income plus non-interest income, less security gains and losses. The efficiency ratio, which is a measure commonly used by management and the banking industry, measures the amount of expense incurred to generate a dollar of revenue. The efficiency ratio improved in 2018 to 56.2% as compared to 58.3% in 2017 and 61.8% in 2016. Operating costs have been influenced by acquisitions and the adjusted efficiency ratio⁽³⁾, excluding the impact of such acquisition costs among other items, was 54.5% for the year ended December 31, 2018. While acquisition expenses may have a negative impact on the efficiency ratios, the Company expects to realize operating efficiencies creating a positive impact in future years. Further, the Company started to see greater operating efficiencies from the South Side Bank integration beginning in the second quarter of 2018.

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

Balance Sheet

Significant Balance Sheet Items (dollars in thousands)

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	December 31, 2018	December 31, 2017	\$ Change	% Change	
Assets					
Securities available for sale	\$ 697,685	\$ 872,682	\$ (174,997)	(20.1)	%
Securities held to maturity	608,660	443,550	165,110	37.2	%
Loans held for sale	25,895	94,848	(68,953)	(72.7)	%
Portfolio loans, net	5,517,780	5,465,918	51,862	0.9	%
Total assets	\$ 7,702,357	\$ 7,860,640	\$ (158,283)	(2.0)	%
Liabilities					
Deposits:					
Noninterest-bearing	\$ 1,464,700	\$ 1,597,421	\$ (132,721)	(8.3)	%
Interest-bearing	4,784,621	4,528,544	256,077	5.7	%
Total deposits	\$ 6,249,321	\$ 6,125,965	\$ 123,356	2.0	%
Securities sold under agreements to repurchase	\$ 185,796	\$ 304,566	\$ (118,770)	(39.0)	%
Short-term borrowings	—	220,000	(220,000)	(100.0)	%
Long-term debt	50,000	50,000	—	—	%
Senior notes, net of unamortized issuance costs	39,539	39,404	135	0.3	%
Subordinated notes, net of unamortized issuance costs	59,147	64,715	(5,568)	(8.6)	%
Junior subordinated debt owed to unconsolidated trusts	71,155	71,008	147	0.2	%
Total liabilities	\$ 6,707,393	\$ 6,925,637	\$ (218,244)	(3.2)	%
Stockholders' equity	\$ 994,964	\$ 935,003	\$ 59,961	6.4	%

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Investment Securities

Securities available for sale are carried at fair value. Securities held to maturity are carried at amortized cost. Equity securities are carried at fair value. As of December 31, 2018, the fair value of securities available for sale was \$697.7 million and the amortized cost was \$707.2 million. There were \$0.8 million of gross unrealized gains and \$10.3 million of gross unrealized losses for a net unrealized loss of \$9.5 million. The net unrealized loss, net of tax, is recorded in stockholders' equity. As of December 31, 2018, the amortized cost of securities held to maturity was \$608.7 million and the fair value was \$603.4 million. As of December 31, 2018, the fair value of equity securities was \$6.2 million.

The composition of securities available for sale was as follows (dollars in thousands):

	As of December 31,		
	2018	2017	2016
U.S. Treasury securities	\$ 25,411	\$ 60,348	\$ 74,944
Obligations of U.S. government corporations and agencies	52,342	103,665	79,127
Obligations of states and political subdivisions	170,044	280,199	154,938
Commercial mortgage-backed securities	1,942	—	—
Residential mortgage-backed securities	315,748	397,436	302,249
Corporate debt securities	132,198	31,034	143,343
Fair value of securities available for sale	\$ 697,685	\$ 872,682	\$ 754,601
Amortized cost	\$ 707,213	\$ 877,459	\$ 755,276
Fair value as a percentage of amortized cost	98.65 %	99.46 %	99.91 %

The composition of securities held to maturity was as follows (dollars in thousands):

	As of December 31,		
	2018	2017	2016
Obligations of states and political subdivisions	\$ 33,928	\$ 41,464	\$ 44,295
Commercial mortgage-backed securities	58,062	60,218	3,388
Residential mortgage-backed securities	511,370	339,370	—
Fair value of securities held to maturity	\$ 603,360	\$ 441,052	\$ 47,683
Amortized cost	\$ 608,660	\$ 443,550	\$ 47,820
Fair value as a percentage of amortized cost	99.13 %	99.44 %	99.71 %

The primary purposes of the investment securities portfolio are to provide a source of liquidity; to provide collateral for pledging purposes against public monies and repurchase agreements; to serve as a tool for interest rate risk

positioning; and to provide a source of earnings by deploying funds which are not needed to fulfill loan demand, deposit redemptions or other liquidity purposes. Pledged securities totaled \$498.3 million, or 38.0% of total securities, and \$638.2 million, or 48.4% of total securities, at December 31, 2018 and 2017, respectively.

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The maturities, fair values and weighted average yields of securities available for sale and held to maturity as of December 31, 2018 were (dollars in thousands):

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years			
	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Weighted Average Yield(2)	
Available for sale(1)										
U.S. Treasury securities	\$ 299	1.77 %	\$ 25,112	1.75 %	\$ —	— %	\$ —	— %	—	— %
Obligations of U.S. government corporations and agencies	10,654	1.51 %	34,370	1.86 %	6,543	2.28 %	775		3.92	%
Obligations of states and political subdivisions(3)	28,671	2.04 %	43,933	2.77 %	60,539	2.82 %	36,901		2.96	%
Commercial mortgage-backed securities	—	— %	—	— %	—	— %	1,942		1.86	%
Residential mortgage-backed securities	72	4.03 %	7,219	2.77 %	67,473	2.53 %	240,984		2.36	%
Corporate debt securities	20,063	2.39 %	111,572	3.20 %	563	3.69 %	—		—	%
Total	\$ 59,759	2.06 %	\$ 222,206	2.73 %	\$ 135,118	2.65 %	\$ 280,602		3.71	%

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years			
	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Fair Value	Weighted Average Yield(2)	Weighted Average Yield(2)	
Held to maturity(1)										
Obligations of states and political subdivisions(3)	\$ 5,589	2.66 %	\$ 17,792	2.68 %	\$ 10,547	2.87 %	\$ —		—	%

Commercial
mortgage-backed

securities	2,499	1.89	%	37,215	2.22	%	18,348	2.64	%	—	—	%
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Residential
mortgage-backed

securities	—	—	%	—	—	%	—	—	%	511,370	2.88	%
Total	\$ 8,088	2.42	%	\$ 55,007	2.37	%	\$ 28,895	2.72	%	\$ 511,370	2.88	%

- (1) Securities are presented based upon final contractual maturity or pre-refunded date.
- (2) Securities with floating rates are assumed to remain constant at their rates as of December 31, 2018.
- (3) Weighted average yield calculated on a tax-equivalent basis, assuming a federal income tax rate of 21%.

We consider many factors in determining the composition of our investment portfolio including, but not limited to, credit quality, duration, interest rate risk, liquidity, tax-equivalent yield, regulatory and overall portfolio allocation. As of December 31, 2018, the Company did not have any non-U.S. Treasury securities or obligations of U.S. government corporations and agencies issued securities that exceeded 10% of the Company's total stockholders' equity.

Portfolio Loans

The Company believes that making sound loans is a necessary and desirable means of employing funds available for investment. Authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures designed to focus lending efforts on the types, locations and duration of loans most appropriate for its business model and markets. While not specifically limited, the Company attempts to focus its originating loans with short to intermediate terms in geographic areas within a reasonable distance from its lending offices. A small portion of residential mortgage loans may be originated outside of the Company's markets to accommodate existing customers of the Bank. The Company attempts to utilize government-assisted lending programs, such as the Small Business Administration and United States Department of Agriculture lending programs, when prudent. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid primarily from cash flows of the borrowers, or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company's lending policies and procedures on a routine basis. The policies for legacy First Community Financial Bank and South Side Bank loans were similar in nature to Busey Bank's policies and the Company has migrated loan production to Busey Bank policies. Management routinely (at least quarterly) reviews the Company's allowance for loan losses in conjunction with reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company's underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at a

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minimum, an active deposit banking relationship in addition to the lending relationship. Additional significant underwriting factors beyond location, duration, a sound and profitable cash flow basis and the borrower's character include the quality of the borrower's financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

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

The Company maintains an independent loan review department that reviews the loans for compliance with the Company's loan policy on a periodic basis. In addition, the loan review department reviews the risk assessments made by the Company's credit department, lenders and loan committees. Results of these reviews are presented to management and the audit committee at least quarterly.

The Company's lending can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction loans, retail real estate loans, and retail other loans.

Commercial Loans

Commercial loans typically comprise working capital loans or business expansion loans, including loans for asset purchases and other business loans. Commercial loans will generally be guaranteed in full or a significant amount by the primary owners of the business. Commercial loans are made based primarily on the historical and projected cash flow of the underlying borrower and secondarily on the underlying assets pledged as collateral by the borrower. The cash flows of the underlying borrower, however, may not perform consistently with historical or projected information. Further, the collateral securing loans may fluctuate in value due to individual economic or other factors. The Company has established minimum standards and underwriting guidelines for all commercial loan types.

Commercial Real Estate Loans

The commercial environment, along with the academic presence in some of the Company's markets, provides for the majority of the Company's commercial lending opportunities to be commercial real estate related, including multi-unit housing. As the majority of the Company's loan portfolio is within the commercial real estate class, the Company's goal is to maintain a high quality, geographically diverse portfolio of commercial real estate loans. Commercial real estate loans are subject to underwriting standards and guidelines similar to commercial loans. Commercial real estate

loans will generally be guaranteed in full or a significant amount by the primary owners of the business. The repayment of these loans is primarily dependent on the cash flows of the underlying property. However, commercial real estate loans generally must be supported by an adequate underlying collateral value. The performance and the value of the underlying property may be adversely affected by economic factors or geographical and/or industry specific factors. These loans are subject to other industry guidelines that are closely monitored by the Company.

Real Estate Construction Loans

Real estate construction loans are typically commercial in nature. The loan proceeds are monitored by the Company and advanced for the improvement of real estate in which the Company holds a mortgage. Real estate construction loans will generally be guaranteed in full or a significant amount by the developer or primary owners of the business. These loans are subject to underwriting standards and guidelines similar to commercial loans. The loan generally must be supported by an adequate “as completed” value of the underlying project. In addition to the underlying project, the financial history of the developer and business owners weighs significantly in determining approval. The repayment of these loans is typically through permanent financing following completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties as the unimproved nature and the financial risks of construction significantly enhance the risks of commercial real estate loans. These loans are closely monitored and subject to other industry guidelines.

Retail Real Estate Loans

Retail real estate loans are comprised of direct consumer loans that include residential real estate, residential real estate construction loans, home equity lines of credit and home equity loans. In 2018, the Company sold the majority of its originated fixed rate retail real estate loans to secondary market purchasers. As retail real estate loan underwriting is subject to specific regulations, the Company typically underwrites its retail real estate loans to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

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Retail Other Loans

Retail other loans consist of installment loans to individuals, including automotive loans. These loans are centrally underwritten utilizing the borrower's financial history, including the FICO credit scoring and information as to the underlying collateral. Repayment is expected from the cash flow of the borrower.

The composition of our portfolio loans as of the dates indicated was as follows (dollars in thousands):

	As of December 31,				
	2018	2017	2016	2015	2014
Commercial	\$ 1,405,106	\$ 1,414,631	\$ 959,888	\$ 656,576	\$ 601,760
Commercial real estate	2,366,823	2,354,684	1,654,164	1,208,429	1,104,151
Real estate construction	288,197	261,506	182,078	96,568	107,054
Retail real estate	1,480,133	1,460,801	1,069,060	651,191	582,073
Retail other	28,169	27,878	13,710	14,975	10,252
Portfolio loans	\$ 5,568,428	\$ 5,519,500	\$ 3,878,900	\$ 2,627,739	\$ 2,405,290

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

	December 31, 2018				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	\$ 972,072	\$ 394,043	\$ 17,954	\$ 21,037	\$ 1,405,106
Commercial real estate	1,448,937	579,536	158,337	180,013	2,366,823
Real estate construction	78,489	122,385	17,859	69,464	288,197
Retail real estate	874,910	475,739	102,117	27,367	1,480,133
Retail other	24,849	1,294	1,455	571	28,169
Portfolio loans	\$ 3,399,257	\$ 1,572,997	\$ 297,722	\$ 298,452	\$ 5,568,428
Less allowance for loan losses					50,648
Portfolio loans, net					\$ 5,517,780

	December 31, 2017				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	\$ 974,392	\$ 378,424	\$ 19,005	\$ 42,810	\$ 1,414,631
Commercial real estate	1,505,819	547,200	147,360	154,305	2,354,684
Real estate construction	87,084	74,662	26,209	73,551	261,506

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Retail real estate	835,287	509,500	98,112	17,902	1,460,801
Retail other	26,230	685	961	2	27,878
Portfolio loans	\$ 3,428,812	\$ 1,510,471	\$ 291,647	\$ 288,570	\$ 5,519,500
Less allowance for loan losses					53,582
Portfolio loans, net					\$ 5,465,918

Portfolio loans increased \$48.9 million, or 0.9%, as of December 31, 2018 compared to December 31, 2017 as a result of organic growth. Commercial balances (consisting of commercial, commercial real estate and real estate construction loans) increased \$29.3 million from December 31, 2017. Retail real estate and retail other loans increased \$19.6 million from December 31, 2017.

Commitments to extend credit and standby letters of credit totaled \$1.4 billion and \$1.3 billion as of December 31, 2018 and 2017, respectively.

Relationship banking, rather than transactional banking, remains a focus for the Company. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship.

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The following table sets forth remaining maturities of selected loans (excluding loan accretion and certain real estate-mortgage loans and installment loans to individuals) at December 31, 2018 (dollars in thousands):

	1 Year or Less	1 to 5 Years	Over 5 Years	Total
Commercial	\$ 855,868	\$ 463,792	\$ 86,531	\$ 1,406,191
Commercial real estate	584,216	1,491,339	300,022	2,375,577
Real estate construction	184,949	73,277	30,210	288,436
Total	\$ 1,625,033	\$ 2,028,408	\$ 416,763	\$ 4,070,204
Interest rate sensitivity of selected loans				
Fixed rate	\$ 732,842	\$ 1,784,354	\$ 398,789	\$ 2,915,985
Adjustable rate	892,191	244,054	17,974	1,154,219
Total	\$ 1,625,033	\$ 2,028,408	\$ 416,763	\$ 4,070,204

Allowance for Loan Losses

The following table shows activity affecting the allowance for loan losses (dollars in thousands):

	Years ended December 31,				
	2018	2017	2016	2015	2014
Average portfolio loans outstanding during period	\$ 5,533,549	\$ 4,567,259	\$ 3,394,352	\$ 2,518,328	\$ 2,290,441
Allowance for loan losses:					
Balance at beginning of period	\$ 53,582	\$ 47,795	\$ 47,487	\$ 47,453	\$ 47,567
Loans charged-off:					
Commercial	\$ (3,968)	\$ (994)	\$ (6,598)	\$ (1,333)	\$ (1,990)
Commercial real estate	(4,352)	(1,965)	(470)	(1,462)	(1,173)
Real estate construction	(97)	(48)	(24)	—	(726)
Retail real estate	(1,815)	(2,691)	(2,106)	(1,534)	(3,052)
Retail other	(712)	(541)	(458)	(365)	(430)
Total charge-offs	\$ (10,944)	\$ (6,239)	\$ (9,656)	\$ (4,694)	\$ (7,371)
Recoveries:					
Commercial	\$ 1,251	\$ 3,561	\$ 1,266	\$ 391	\$ 410
Commercial real estate	449	716	123	1,491	2,379
Real estate construction	218	458	441	284	1,612
Retail real estate	1,327	1,563	2,317	729	644
Retail other	336	425	267	233	212
Total recoveries	\$ 3,581	\$ 6,723	\$ 4,414	\$ 3,128	\$ 5,257

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Net loan (charge-offs)										
recoveries	\$ (7,363)	\$ 484	\$ (5,242)	\$ (1,566)	\$ (2,114)					
Provision for loan losses	\$ 4,429	\$ 5,303	\$ 5,550	\$ 1,600	\$ 2,000					
Balance at end of period	\$ 50,648	\$ 53,582	\$ 47,795	\$ 47,487	\$ 47,453					
Ratios:										
Net charge-offs (recoveries) to average portfolio loans	0.13	% (0.01)	% 0.15	% 0.06	% 0.09					
Allowance for loan losses to portfolio loans at period end	0.91	% 0.97	% 1.23	% 1.81	% 1.97					

Our allowance for loan losses was \$50.6 million, or 0.91% of portfolio loans, and \$53.6 million, or 0.97% of portfolio loans, at December 31, 2018 and 2017, respectively. As a result of acquisitions, the Company is holding \$1.2 billion of acquired loans that are carried net of a fair value adjustment of \$13.9 million for credit and interest rate marks and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment.

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The following table sets forth the allowance for loan losses by loan categories as of December 31 for each of the years indicated (dollars in thousands):

2018	2017	2016	2015	2014
% of Loans to Total Amount	% of Loans to Total Amount	% of Loans to Total Amount	% of Loans to Total Amount	% of Loans to Total Amount
&nb				