

FIRST MID ILLINOIS BANCSHARES INC
Form 10-K
March 05, 2019

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

Or

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

For the transition period from _____ to _____

Commission file number 0-13368

FIRST MID-ILLINOIS BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1421 Charleston Avenue, Mattoon, Illinois

(Address of principal executive offices)

(217) 234-7454

(Registrant's telephone number, including area code)

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

Common stock, par value \$4.00 per share

(Title of class)

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 and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 amendments to this Form Yes No

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

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 outstanding common stock, other than shares held by persons who may be deemed affiliates of the Registrant, as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately \$513,588,874. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the Registrant is not bound by this determination for any other purpose.

As of March 5, 2019, 16,671,367 shares of the Registrant's common stock, \$4.00 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

DocumentInto Form 10-K Part:

Portions of the Proxy Statement for 2019 Annual Meeting of Shareholders to be held on April 24, 2019

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PART I

ITEM 1. BUSINESS

Company and Subsidiaries

First Mid-Illinois Bancshares, Inc. (the “Company”) is a financial holding company. The Company is engaged in the business of banking through its wholly owned subsidiaries, First Mid Bank & Trust, N.A. (“First Mid Bank”) and Soy Capital Bank & Trust Company (“Soy Capital Bank”). The Company provides data processing services to affiliates through another wholly owned subsidiary, Mid-Illinois Data Services, Inc. (“MIDS”). The Company offers insurance products and services to customers through its wholly owned subsidiary, First Mid Insurance Group (“First Mid Insurance”). The Company offers trust, farm services, investment services, and retirement planning through its wholly owned subsidiary, First Mid Wealth Management Company. The Company also wholly owns four statutory business trusts, First Mid-Illinois Statutory Trust I (“First Mid Trust I”), and First Mid-Illinois Statutory Trust II (“First Mid Trust II”), Clover Leaf Statutory Trust I (“CLST Trust”), and FBTC Statutory Trust I (“FBTCST I”), all of which are unconsolidated subsidiaries of the Company.

The Company, a Delaware corporation, was incorporated on September 8, 1981, and pursuant to the approval of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) became the holding company owning all of the outstanding stock of First National Bank, Mattoon (“First National”) on June 1, 1982. First National changed its name to First Mid-Illinois Bank & Trust, N.A. in 1992. The Company acquired all of the outstanding stock of a number of community banks or thrift institutions on the following dates, and subsequently combined their operations with those of the Company:

- Mattoon Bank, Mattoon on April 2, 1984
- State Bank of Sullivan on April 1, 1985
- Cumberland County National Bank in Neoga on December 31, 1985
- First National Bank and Trust Company of Douglas County on December 31, 1986
- Charleston Community Bank on December 30, 1987
- Heartland Federal Savings and Loan Association on July 1, 1992
- Downstate Bancshares, Inc. on October 4, 1994
- American Bank of Illinois on April 20, 2001
- Peoples State Bank of Mansfield on May 1, 2006
- First Clover Leaf Financial on September 8, 2016
- First BancTrust Corporation on August 10, 2018
- SCB Bancorp Inc. on November 15, 2018

In 1997, First Mid Bank acquired the Charleston, Illinois branch location and the customer base of First of America Bank and in 1999 acquired the Monticello, Taylorville and DeLand branch offices and deposit base of Bank One Illinois, N.A.

First Mid Bank also opened a de novo branch in Decatur, Illinois (2000); de novo branches in Champaign, Illinois and Maryville, Illinois (2002), a de novo branch in Highland, Illinois (2005) de novo branches in Decatur, Illinois and Champaign, Illinois (2009), and a de novo branch in Decatur, Illinois (2013).

In 2002, the Company acquired all of the outstanding stock of First Mid Insurance, an insurance agency located in Mattoon.

On September 10, 2010, First Mid Bank acquired 10 Illinois branches from First Bank, a Missouri state chartered bank, located in Bartonville, Bloomington, Galesburg, Knoxville, Peoria and Quincy, Illinois.

On August 14, 2015 First Mid Bank acquired 12 Illinois branch offices (the "ONB Branches") of Old National Bank in Southern Illinois, a national banking association having its principal office in Evansville, Indiana, located in Lawrenceville, Mt Carmel, Mt Vernon, Carmi, De Soto, Murphysboro, Marion, Harrisburg, Carterville and Carbondale, Illinois.

On December 1, 2015 First Mid Insurance acquired Illiana Insurance Agency, LTD ("Illiana"), an insurance agency based in Philo, Illinois.

Employees

The Company and its subsidiaries collectively employed 818 people on a full-time equivalent basis as of December 31, 2018. The Company places a high priority on staff development, which involves extensive training, including customer service training. New employees are selected on the basis of experience, technical skills and customer service capabilities. None of the employees are covered by a collective bargaining agreement with the Company. The Company offers a variety of employee benefits.

Business Lines

The Company has chosen to operate in three primary lines of business—community banking through First Mid Bank and Soy Capital Bank, wealth management through First Mid Wealth Management Company, and insurance brokerage through First Mid Insurance. Of these, the community banking line contributes approximately 90% of the Company's total revenues. Within the community banking line, the Company serves commercial, retail and agricultural customers with a broad array of deposit and loan related products. The wealth management line provides estate planning, investment and farm management services for individuals and employee benefit services for business enterprises. The insurance brokerage line provides commercial lines insurance to businesses as well as homeowner, automobile, health, life and other types of personal lines insurance to individuals. All three lines emphasize a “hands on” approach to service so that products and services can be tailored to fit the specific needs of existing and potential customers. Management believes that by emphasizing this personalized approach, the Company can, to a degree, diminish the trend towards homogeneous financial services, thereby differentiating the Company from competitors and allowing for slightly higher operating margins in each of the three lines.

Business Strategies

Mission Statement. The Company's mission statement is to fulfill the financial needs of our communities with exceptional personal service, professionalism and integrity, and deliver meaningful value and results for customers and shareholders.

Achieve 2020. Achieve 2020 is a strategic plan that was developed in 2015. This multi-year strategic plan has broad-based initiatives designed to ensure the Company performs at a level with the highest performing community banks in the Midwest and to increase value for its shareholders, customers and employees in the future. The strategic plan was developed by executive management of the Company, modified and adopted by the Board of Directors and communicated to employees. The plan is reviewed and updated, if needed, annually. The Achieve 2020 plan was not undertaken as a result of any weaknesses or deficiencies identified during the Company's control assessments but rather as part of the Company's effort to continually assess and improve. Achieve 2020 is comprised of broad strategies that impact growth, customers, employees, and operations and infrastructure, shareholders and risk management. Following is a description of these strategies.

Growth Strategy. The Company believes that growth of revenues and its customer base is vital to the goal of increasing the value of its shareholders' investment. The Company strives to create shareholder value by maintaining a strong balance sheet and increasing profits. Management attempts to grow in two primary ways:

- by organic growth through adding new customers and selling more products and services to existing customers; and
- by strategic acquisitions.

Virtually all of the Company's customer-contact personnel, in each of its business lines, are engaged in organic growth efforts to one degree or another. These personnel attempt to match products and services with the particular financial needs of individual customers and prospective customers. Many senior officers of the organization are required to attend monthly meetings where they report on their business development efforts and results. Executive management uses these meetings as an educational and risk management opportunity as well. Cross-selling opportunities are encouraged and measured between the business lines and is facilitated by an on-line application.

Within the community banking line, the Company has focused on growing business operating and real estate loans. Total commercial real estate loans have increased from \$380 million at December 31, 2014 to \$907 million at December 31, 2018. Of this increase, approximately \$20 million was the result of the acquisition of the ONB Branches in the third quarter of 2015 and \$156 million was the result of the acquisition of First Clover Leaf in the third quarter of 2016, \$55 million was the result of the acquisition of First Bank during the second quarter of 2018, and \$50 million was the result of the acquisition of Soy Capital Bank during the fourth quarter of 2018.

Approximately 67% of the Company's total revenues were derived from lending activities in the fiscal year ended December 31, 2018. The Company has also focused on growing its commercial and retail deposit base through growth in checking, money markets and customer repurchase agreement balances. The wealth management line has focused its growth efforts on estate planning, and investment services for individuals and employee benefit services for businesses. The insurance brokerage line has focused on increasing property and casualty, senior insurance products and group medical insurance for businesses and personal lines insurance to individuals.

Growth through acquisitions has been an integral part of the Company's strategy for an extended period of time. When reviewing acquisition possibilities, the Company focuses on those organizations where there is a cultural fit with its existing operations and where there is a strong likelihood of building shareholder value.

Customer Strategy. The Company uses its market and customer knowledge to build relationships that provide high-value customer experiences that continually improve customer satisfaction and loyalty.

Employee Strategy. The Company strives for employee engagement at all levels of the organization. The judgments, experiences and capabilities of these employees are used to create an environment where meeting the needs of our customer, communities and stockholders is always a priority.

Strategy for Operations & Infrastructure. Operationally, the Company centralizes most administrative and operational tasks within its home office in Mattoon, Illinois. This allows branches to maintain customer focus, helps assure compliance with banking regulations, keeps fixed administrative costs at as low a level as practicable, and allows for better management of risk inherent in the business. The Company also utilizes technology where practicable in daily banking activities to reduce the potential for human error. While the Company does not employ every new technology that is introduced, it attempts to be competitive with other banking organizations with respect to operational and customer technology.

Shareholder Strategy. The Company strives to provide a competitive dividend as well as the opportunity for stock price appreciation and is focused on improving the liquidity of the stock.

Risk Management Strategy. The Company maintains a comprehensive risk management framework. The Company has initiated an Enterprise Risk Management (“ERM”) process whereby management assesses the relevant risks inherent in the business, determines internal controls and procedures are in place to address the various risks, develops a structure for monitoring and reporting risk indicators and trends over time, and incorporates action plans to manage risk positions. The ERM process was not undertaken as a result of any weaknesses or deficiencies identified during the Company’s control assessments but rather is part of the Company’s effort to continually assess and improve by taking a more holistic approach to risk management. The Company’s Chief Risk Management Officer is responsible for facilitating the ERM process. The Company utilizes a comprehensive set of operational policies and procedures that have been developed over time. These policies are continually reviewed by management, the Chief Risk Management Officer, and the Board of Directors. The Company’s internal audit function completes procedures to ensure compliance with these policies. While there are several risks that pertain to the business of banking, three risks that are inherent with most banking companies are credit risk, interest rate risk, and liquidity risk.

In the business of banking, credit risk is an important risk as losses from uncollectible loans can diminish capital, earnings and shareholder value. In order to address this risk, the lending function of First Mid Bank and Soy Capital Bank receives significant oversight from executive management and the Board of Directors. An important element of credit risk management is the quality, experience and training of the loan officers. The Company has invested, and will continue to invest, significant resources to ensure the quality, experience and training of our loan officers in order to keep credit losses at a minimum. In addition to the human element of credit risk management, the Company’s loan policies address the additional aspects of credit risk. Most lending personnel have signature authority that allows them to lend up to a certain amount based on their own judgment as to the creditworthiness of a borrower. The amount of the signature authority is based on the lending officers’ experience and training. The Senior Loan Committee, consisting of the most experienced lenders within the organization, must approve all underwriting decisions in excess of \$4 million and up to \$15 million. The Board of Directors must approve all underwriting decisions in excess of \$15 million. The legal lending limit for First Mid Bank was \$52.6 million and Soy Capital Bank was \$6.8 million at December 31, 2018. While the underlying nature of lending will result in some amount of loan losses, First Mid’s loan loss experience has been good with average net charge offs amounting to \$1.6 million (0.10% of total loans) over the past five years. Nonperforming loans were \$39.8 million (1.51% of total loans) at December 31, 2018. These percentages have historically compared well with peer financial institutions and continue to do so today.

Interest rate and liquidity risk are two other forms of risk embedded in the banking business. The Company’s Asset Liability Management Committee, consisting of experienced individuals, from various departments, who monitor all aspects of interest rates and maturities of interest earning assets and interest paying liabilities, manages these risks. The underlying objectives of interest rate and liquidity risk management are to shelter the Company’s net interest margin from changes in interest rates while maintaining adequate liquidity reserves to meet unanticipated funding demands. The Company uses financial modeling technology as a tool for evaluating these risks. Despite the tools and methods used to monitor this risk, a sustained unfavorable interest rate environment will lead to some amount of compression in the net interest margin. During 2018, the Company’s net interest margin increased to 3.71% from 3.57% in 2017 primarily due to the increase interest earnings assets and net accretion income from the acquisition of First Clover Leaf.

Markets and Competition

The Company has active competition in all areas in which First Mid Bank and Soy Capital Bank do business. The banks compete for commercial and individual deposits, loans, and trust business with many east central Illinois banks,

savings and loan associations, and credit unions. The principal methods of competition in the banking and financial services industry are quality of services to customers, ease of access to facilities, on-line services and pricing of services, including interest rates paid on deposits, interest rates charged on loans, and fees charged for fiduciary and other banking services.

During 2018, First Mid Bank and Soy Capital Bank operated branches in the Illinois counties of Adams, Champaign, Christian, Clark, Coles, Cumberland, Dewitt, Douglas, Edgar, Effingham, Jackson, Jefferson, Kankakee, Knox, Lawrence, Macon, Madison, Moultrie, McClean, Peoria, Piatt, Saline, St Clair, Wabash, White and Williamson and in Missouri, St. Louis county. Each branch primarily serves the community in which it is located. First Mid Bank served thirty-seven different communities with sixty-four separate locations in Illinois, 1 location in Missouri, and a loan production office in Indiana.

Website

The Company maintains a website at www.firstmid.com. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission (“SEC”) can be accessed, free of charge, through this website and at www.sec.gov as soon as reasonably practicable after these materials are filed with the SEC.

First BancTrust Corporation

On December 11, 2017, the Company and Project Hawks Merger Sub LLC (formerly known as Project Hawks Merger Sub Corp.), a newly formed Delaware limited liability company and wholly-owned subsidiary of the Company (“Hawks Merger Sub”), entered into an Agreement and Plan of Merger (as amended as of January 18, 2018, the “First Bank Merger Agreement”) with First BancTrust Corporation, a Delaware corporation (“First Bank”), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of First Bank pursuant to a business combination whereby First Bank merged with and into Hawks Merger Sub, with Hawks Merger Sub as the surviving entity and a wholly-owned subsidiary of the Company (the “First Bank Merger”).

Subject to the terms and conditions of the First Bank Merger Agreement, at the effective time of the First Bank Merger, each share of common stock, par value \$0.01 per share, of First Bank issued and outstanding immediately prior to the effective time of the First Bank Merger (other than shares held in treasury by First Bank and shares held by stockholders who have properly made and not withdrawn a demand for appraisal rights under Delaware law) converted into and

become the right to receive, (a) \$5.00 in cash and (b) 0.800 shares of common stock, par value \$4.00 per share, of the Company and cash in lieu of fractional shares, less any applicable taxes required to be withheld and subject to certain adjustments, all as set forth in the First Bank Merger Agreement.

The First Bank Merger closed on May 1, 2018 and the Company issued an aggregate total of 1,643,900 shares of common stock and paid approximately \$10,275,000, including cash in lieu of fractional shares. The accounting for the First Bank Merger is presented in Note 8 to the consolidated financial statements. First Bank's wholly-owned bank subsidiary, First Bank & Trust, merged with and into the Company's wholly owned bank subsidiary, First Mid Bank, on August 10, 2018. At the time of the bank merger, First Bank & Trust's banking offices became branches of First Mid Bank.

SCB Bancorp, Inc.

On June 12, 2018, The Company and Project Almond Merger Sub LLC, a newly formed Illinois limited liability company and wholly-owned subsidiary of the Company ("Almond Merger Sub"), entered into an Agreement and Plan of Merger (the "SCB Merger Agreement") with SCB Bancorp, Inc., an Illinois corporation ("SCB"), pursuant to which, among other things, the Company agreed to acquire 100% of the issued and outstanding shares of SCB pursuant to a business combination whereby SCB will merge with and into Almond Merger Sub, whereupon the separate corporate existence of SCB will cease and Merger Sub will continue as the surviving company and a wholly-owned subsidiary of the Company (the "SCB Merger").

Subject to the terms and conditions of the SCB Merger Agreement, at the effective time of the SCB Merger, each share of common stock, par value \$7.50 per share, of SCB issued and outstanding immediately prior to the effective time of the SCB Merger were converted into and become the right to receive, at the election of each stockholder, either \$307.93 in cash or 8.0228 shares of common stock, par value \$4.00 per share, of the Company and cash in lieu of fractional shares, less any applicable taxes required to be withheld. In addition, immediately prior to the closing of the proposed merger, SCB paid a special dividend to its shareholders in the aggregate amount of approximately \$25 million. The SCB Merger was subject to customary closing conditions, including the approval of the appropriate regulatory authorities and of the stockholders of SCB. The SCB Merger was completed November 15, 2018 and an aggregate of 1,330,571 shares of common stock were issued, and approximately \$19,046,000 was paid, to the stockholders of SCB, including cash in lieu of fractional shares.

It is anticipated that SCB's wholly-owned bank subsidiary, Soy Capital Bank and Trust Company ("Soy Capital Bank"), will be merged with and into First Mid Bank on April 6, 2019. At the time of the bank merger, Soy Capital Bank's banking offices will become branches of First Mid Bank.

Capital Raise

On June 13, 2018, the Company and First Mid Bank entered into an underwriting agreement (the "Underwriting Agreement") with FIG Partners, LLC, as the representative of the several underwriters named therein (the "Underwriters"), pursuant to which the Company agreed to issue and sell to the Underwriters and the Underwriters agreed to purchase, subject to and upon the terms and conditions of the Underwriting Agreement, an aggregate of 823,799 shares of the Company's common stock, par value \$4.00 per share, at a public offering price of \$38.00 per share, in an underwritten public offering (the "Offering"). The Company granted the Underwriters an option for a period of 30 days after the date of the Underwriting Agreement to purchase up to an additional 123,569 shares of common stock at the public offering price, less discounts and commissions. The Underwriters exercised their option in full on June 13, 2018, resulting in 947,368 shares of common stock being offered in the Offering. The Offering closed on June 15, 2018. The net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, were approximately \$34.0 million.

At-The-Market Program

On August 16, 2017, the Company entered into a Sales Agency Agreement, pursuant to which the Company may sell, from time to time, up to an aggregate of \$20 million of its common stock. Shares of common stock are offered pursuant to the Company's shelf registration statement filed within the SEC. During 2018, the company sold no shares of common stock under the program. During the twelve months ended December 31, 2017, the company sold 98,710 shares of common stock at the weighted average price of approximately \$35.13, representing gross proceeds of \$3.47 million and net proceeds of \$3.4 million. As of December 31, 2018, approximately \$16.53 million of common stock remained available for issuance under the At The Market program.

Employee Stock Purchase Plan

At the Annual Meeting of Stockholders held April 25, 2018, the stockholders approved the First Mid-Illinois Bancshares, Inc. Employee Stock Purchase Plan ("ESPP"). The ESPP provides eligible employees with the opportunity to purchase shares of common stock of the Company at a 5% discount through payroll deductions. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code. A maximum of 600,000 shares of common stock may be issued under the ESPP.

Supervision and Regulation

General

Financial institutions, financial services companies, and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities including, but not limited to, the Office of the Comptroller of the Currency (the "OCC"), the Federal Reserve Board, the Federal Deposit Insurance Corporation (the "FDIC"), the Internal Revenue Service and state taxing authorities. Any change in applicable laws, regulations or regulatory policies may have material effects on the business, operations and prospects of the Company, First Mid Bank, and Soy Capital Bank. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on its business and earnings in the future.

Federal and state laws and regulations generally applicable to financial institutions and financial services companies, such as the Company and its subsidiaries, regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund and the depositors, rather than the stockholders, of financial institutions.

The following references to material statutes and regulations affecting the Company and its subsidiaries are brief summaries thereof and do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations. Any change in applicable law or regulations may have a material effect on the business of the Company and its subsidiaries.

Financial Modernization Legislation

The 1999 Gramm-Leach-Bliley Act (the "GLB Act") significantly changed financial services regulation by expanding permissible non-banking activities of bank holding companies and removing certain barriers to affiliations among banks, insurance companies, securities firms and other financial services entities. These activities and affiliations can be structured through a holding company structure or, in the case of many of the activities, through a financial subsidiary of a bank. The GLB Act also established a system of federal and state regulation based on functional regulation, meaning that primary regulatory oversight for a particular activity generally resides with the federal or state regulator having the greatest expertise in the area. Banking is supervised by banking regulators, insurance by state insurance regulators and securities activities by the SEC and state securities regulators. The GLB Act also requires the disclosure of agreements reached with community groups that relate to the Community Reinvestment Act, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

The GLB Act repealed the anti-affiliation provisions of the Glass-Steagall Act and revised the Bank Holding Company Act of 1956 (the "BHCA") to permit qualifying holding companies, called "financial holding companies," to engage in, or to affiliate with companies engaged in, a full range of financial activities, including banking, insurance activities (including insurance portfolio investing), securities activities, merchant banking and additional activities that are "financial in nature," incidental to financial activities or, in certain circumstances, complementary to financial activities. A bank holding company's subsidiary banks must be "well-capitalized" and "well-managed" and have at least a "satisfactory" Community Reinvestment Act rating for the bank holding company to elect and maintain its status as a financial holding company.

A significant component of the GLB Act's focus on functional regulation relates to the application of federal securities laws and SEC oversight of some bank securities activities previously exempt from broker-dealer registration. Among other things, the GLB Act amended the definitions of "broker" and "dealer" under the Securities Exchange Act of 1934, as amended, to remove the blanket exemption for banks. Under the GLB Act, banks may conduct securities activities without broker-dealer registration only if the activities fall within a set of activity-based exemptions designed to allow banks to conduct only those activities traditionally considered to be primarily banking or trust activities.

Securities activities outside these exemptions, as a practical matter, need to be conducted by a registered broker-dealer affiliate. The GLB Act also amended the Investment Advisers Act of 1940 to require the registration of banks that act as investment advisers for mutual funds. The Company believes that it has taken the necessary actions to comply with these requirements of the GLB Act and the regulations adopted under them.

Anti-Terrorism Legislation

The USA PATRIOT Act of 2001 included the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the “IMLAFA”). The IMLAFA contains anti-money laundering measures affecting insured depository institutions, broker-dealers, and certain other financial institutions. The IMLAFA requires U.S. financial institutions to adopt policies and procedures to combat money laundering and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions’ operations. The Company has established policies and procedures for compliance with the IMLAFA and the related regulations. The Company has designated an officer solely responsible for ensuring compliance with existing regulations and monitoring changes to the regulations as they occur.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. The Act, among other things:

Resulted in the Federal Reserve issuing rules limiting debit-card interchange fees.

After a three-year phase-in period which began January 1, 2013, existing trust preferred securities for holding companies with consolidated assets greater than \$15 billion and all new issuances of trust preferred securities are removed as a permitted component of a holding company’s Tier 1 capital. Trust preferred securities outstanding as of May 19, 2010 that were issued by bank holding companies with total consolidated assets of less than \$15 billion, such as First Mid Bank and Soy Capital Bank, will continue to count as Tier 1 capital.

Provides for new disclosure and other requirements relating to executive compensation and corporate governance.

Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries.

Provides mortgage reform provisions including (i) a customer's ability to repay, (ii) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by requiring lenders to evaluate using the maximum rate that will apply during the first five years of a variable-rate loan term, and (iii) making more loans subject to provisions for higher cost loans and new disclosures.

Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

Permanently increases the deposit insurance coverage to \$250 thousand and allows depository institutions to pay interest on checking accounts.

Requires publicly-traded bank holding companies with assets of \$10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

Limits and regulates, under the provisions of the Act known as the Volker Rule, a financial institution's ability to engage in proprietary trading or to own or invest in certain private equity and hedge funds.

Basel III

In September 2010, the Basel Committee on Banking Supervision proposed higher global minimum capital standards, including a minimum Tier 1 common capital ratio and additional capital and liquidity requirements. On July 2, 2013, the Federal Reserve Board approved a final rule to implement these reforms and changes required by the Dodd-Frank Act. This final rule was subsequently adopted by the OCC and the FDIC.

The final rule included new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refined the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and First Mid Bank beginning in 2015 were: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The rule also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount.

The final rule also made three changes to the proposed rule of June 2012 that impacted the Company. First, the proposed rule required banking organizations to include accumulated other comprehensive income ("AOCI") in common equity tier 1 capital. AOCI includes accumulated unrealized gains and losses on certain assets and liabilities that have not been included in net income. Under existing general risk-based capital rules, most components of AOCI are not included in a banking organization's regulatory capital calculations. The final rule allowed community banking organizations to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The Company has made this election.

Second, the proposed rule modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposure into two categories in order to determine the applicable risk weight. The final rule, however, retained the existing treatment for residential mortgage exposures under the general risk-based capital rules.

Third, the proposed rule required banking organizations with total consolidated assets of less than \$15 billion as of December 31, 2009, such as the Company, to phase out over ten years any trust preferred securities and cumulative perpetual preferred securities from its Tier 1 capital regulatory capital. The final rule, however, permanently grandfathered into Tier 1 capital of depository institution holding companies with total consolidated assets of less than \$15 billion as of December 31, 2009 any trust preferred securities or cumulative perpetual preferred stock issued before May 19, 2010.

The Company

General. As a registered financial holding company under the BHCA that has elected to become a financial holding company under the GLB Act, the Company is subject to regulation by the Federal Reserve Board. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to First Mid Bank and to commit resources to support First Mid Bank in circumstances where the Company might not do so absent such policy. The Company is subject to inspection, examination, and supervision by the Federal Reserve Board.

Activities. As a financial holding company, the Company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. A bank holding company that is not also a financial holding company is limited to engaging in banking and such other activities as determined by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

No Federal Reserve Board approval is required for the Company to acquire a company (other than a bank holding company, bank, or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. However, the Company generally must give the Federal Reserve Board after-the-fact notice of these activities. Prior Federal Reserve Board approval is required before the Company may acquire beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank, or savings association.

If any subsidiary bank of the Company ceases to be “well-capitalized” or “well-managed” under applicable regulatory standards, the Federal Reserve Board may, among other actions, order the Company to divest its depository institution. Alternatively, the Company may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company.

If any subsidiary bank of the Company receives a rating under the Community Reinvestment Act of less than “satisfactory”, the Company will be prohibited, until the rating is raised to “satisfactory” or better, from engaging in new activities or acquiring companies other than bank holding companies, banks, or savings associations.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Board capital adequacy guidelines. The Federal Reserve Board’s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies for 2018, which include the partial phase in of the capital conservation buffer: a total capital to total risk-based capital ratio of not less than 9.875%, a Tier 1 risk-based ratio of not less than 7.875%, a common equity Tier 1 capital ratio of not less than 6.375%, and a Tier 1 leverage ratio of not less than 4.00%. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders’ equity, less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships), and total capital means Tier 1 capital plus certain other debt and equity instruments which do not qualify as Tier 1 capital, limited amounts of unrealized gains on equity securities and a portion of the Company’s allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements, and higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve Board’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.

As of December 31, 2018, the Company had regulatory capital, calculated on a consolidated basis, in excess of the Federal Reserve Board’s minimum requirements, and its capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies with a total risk-based capital ratio of 13.63%, a Tier 1 risk-based ratio of 12.76%, a common equity Tier 1 capital ratio of 11.81% and a leverage ratio of 11.15%.

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of person from acquiring “control” of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company. In addition, any company is required to obtain the approval of the Federal Reserve Board under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding common of the Company, or otherwise obtaining control of a “controlling influence” over the Company or First Mid Bank.

Interstate Banking and Branching. The Dodd-Frank Act expands the authority of banks to engage in interstate branching. The Dodd-Frank Act allows a state or national bank to open a de novo branch in another state if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch.

Privacy and Security. The GLB Act establishes a minimum federal standard of financial privacy by, among other provisions, requiring banks to adopt and disclose privacy policies with respect to consumer information and setting forth certain rules with respect to the disclosure to third parties of consumer information. The Company has adopted and disseminated its privacy policies pursuant to the GLB Act. Regulations adopted under the GLB Act set standards for protecting the security, confidentiality and integrity of customer information, and require notice to regulators, and in some cases, to customers, in the event of security breaches. A number of states have adopted their own statutes requiring notification of security breaches. In addition, the GLB Act requires the disclosure of agreements reached with community groups that relate to the CRA, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

First Mid Bank and Soy Capital Bank

General. First Mid Bank is a national bank, chartered under the National Bank Act. Soy Capital Bank is an Illinois state-chartered bank. The FDIC insures the deposit accounts of the Banks. The Banks are members of the Federal Reserve System and are subject to the examination, supervision, reporting and enforcement requirements of the OCC, as the primary federal regulator of national banks, the Illinois Department of Financial and Professional Regulation, Division of Banking (the "IDFPR"), as the primary regulator of Illinois chartered banks, and the FDIC, as administrator of the deposit insurance fund.

Deposit Insurance. As an FDIC-insured institution, the Banks are required to pay deposit insurance premium assessments to the FDIC. On July 21, 2010, The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount from \$100,000 to \$250,000.

On February 27, 2009, the FDIC adopted a final rule setting initial base assessment rates beginning April 1, 2009, at 12 to 45 basis points and, due to extraordinary circumstances, extended the period of the restoration plan to increase the deposit insurance fund to seven years. Also on February 27, 2009, the FDIC issued final rules on changes to the risk-based assessment system which imposes rates based on an institution's risk to the deposit insurance fund. The rates increased the range of annual risk based assessment rates from 5 to 7 basis points to 7 to 24 basis points. The final rules both increase base assessment rates and incorporate additional assessments for excess reliance on brokered deposits and FHLB advances. This new assessment took effect April 1, 2009. The Company expensed \$967,000, \$779,000 and \$851,000 for this assessment during 2018, 2017 and 2016, respectively. The increase in this assessment was primarily due to an increase in quarterly average assets.

In addition to its insurance assessment, each insured bank was subject to quarterly debt service assessments in connection with bonds issued by a government corporation that financed the federal savings and loan bailout. The Company expensed \$92,000, \$126,000 and \$115,000 during 2018, 2017 and 2016, respectively, for this assessment.

OCC Assessments. All national banks are required to pay supervisory fees to the OCC to fund the operations of the OCC. The amount of such supervisory fees is based upon each institution's total assets, including consolidated subsidiaries, as reported to the OCC. During the year ended December 31, 2018, 2017, and 2016 the Company expensed supervisory fees totaling \$596,000, \$582,000, and \$453,000, respectively. Changes in total expense are due to changes in assessment rates and increases in total assets of the bank.

Capital Requirements. The banking regulators has established the following minimum capital standards for banks for 2018, which include the partial phase in of the capital conservation buffer in a total capital to total risk-based capital ratio of not less than 9.875%, a Tier 1 risk-based ratio of not less than 7.875%, a common equity Tier 1 capital ratio of not less than 6.375%, and a Tier 1 leverage ratio of not less than 4.00%. For purposes of these capital standards, Tier 1 capital and total capital consists of substantially the same components as Tier 1 capital and total capital under the Federal Reserve Board's capital guidelines for bank holding companies (See "The Company—Capital Requirements").

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the banking regulators provide 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.

During the year ended December 31, 2018, First Mid Bank and Soy Capital Bank were not required to increase capital to an amount in excess of the minimum regulatory requirements, and capital ratios exceeded those required for categorization as well-capitalized under the capital adequacy guidelines established by bank regulatory agencies. First Mid Bank's total risk-based capital ratio was 12.85%, Tier 1 risk-based ratio was 11.89%, common equity Tier 1 ratio was 11.89% and leverage ratio was 9.92%. Soy Capital Bank's total risk-based capital ratio was 14.33%, Tier 1 risk-based ratio was 14.33% and leverage ratio was 11.12%.

Prompt Corrective Action. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well-capitalized," "adequately-capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and in the most severe cases, appointing a conservator or receiver for the institution.

Dividends. The National Bank Act and the Illinois Banking Act impose limitations on the amount of dividends that may be paid by a bank. Generally, a bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank's board of directors deems prudent. Without prior OCC approval, however, a national bank may not pay dividends in any calendar year which, in the aggregate, exceed the bank's year-to-date net income plus the bank's adjusted retained net income for the two preceding years.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial

institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, First Mid Bank and Soy Capital Bank exceeded minimum capital requirements under applicable guidelines as of December 31, 2018. As of December 31, 2018, approximately \$28.8 million was available to be paid as dividends to the Company by First Mid Bank. Notwithstanding the availability of funds for dividends, however, the OCC or IDFPF may prohibit the payment of any dividends if the OCC or IDFPF, as applicable, determines that such payment would constitute an unsafe or unsound practice.

Affiliate and Insider Transactions. First Mid Bank and Soy Capital Bank are subject to certain restrictions under federal law, including Regulation W of the Federal Reserve Board, on extensions of credit to the Company and its subsidiaries, on investments in the stock or other securities of the Company and its subsidiaries and the acceptance of the stock or other securities of the Company or its subsidiaries as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by First Mid Bank and Soy Capital Bank 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.

First Mid Bank and Soy Capital Bank is subject to restrictions under federal law that limits certain transactions with the Company, including loans, other extensions of credit, investments or asset purchases. Such transactions by a banking subsidiary with any one affiliate are limited in amount to 10% of the bank’s capital and surplus and, with all affiliates together, to an aggregate of 20% of the bank’s capital and surplus. Furthermore, such loans and extensions of credit, as well as certain other transactions, are required to be secured in specified amounts. These and certain other transactions, including any payment of money to the Company, must be on terms and conditions that are or in good faith would be offered to nonaffiliated companies.

In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or one of its subsidiaries or a principal stockholder of the Company may obtain credit from banks with which First Mid Bank or Soy Capital Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for 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 guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. The preamble to the guidelines states that the agencies expect to require a compliance plan from an institution whose failure to meet one or more of the guidelines are of such severity that it could threaten the safety and soundness of the institution. Failure to submit an acceptable plan, or failure to comply with a plan that has been accepted by the appropriate federal regulator, would constitute grounds for further enforcement action.

Community Reinvestment Act. First Mid Bank and Soy Capital Bank is subject to the Community Reinvestment Act (CRA). The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of its bank subsidiaries is reviewed by federal banking agencies in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or thrift or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. First Mid Bank and Soy Capital Bank received satisfactory CRA ratings from their regulator in their most recent CRA examination.

Consumer Laws and Regulations. In addition to the laws and regulations discussed above, First Mid Bank and Soy Capital Bank are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act and the Real Estate Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans to or marketing to or engaging in other types of transactions with such customers. Failure to comply with these laws and regulations could lead to substantial penalties, operating restrictions and reputational damage to the financial institution.

Supplemental Item – Executive Officers of the Registrant

The executive officers of the Company are elected annually by the Company’s Board of Directors and are identified below.

Name (Age)	Position With Company
Joseph R. Dively (59)	Chairman of the Board of Directors, President and Chief Executive Officer
Michael L. Taylor (50)	Senior Executive Vice President and Chief Operating Officer
Matthew K. Smith (44)	Executive Vice President and Chief Financial Officer
Eric S. McRae (53)	Executive Vice President
Bradley L. Beesley (47)	Executive Vice President
Laurel G. Allenbaugh (58)	Executive Vice President
Clay M. Dean (44)	Executive Vice President
Amanda D. Lewis (39)	Executive Vice President
David Hiden (57)	Senior Vice President
Christopher L. Slabach (56)	Senior Vice President
Rhonda Gatons (47)	Senior Vice President

Joseph R. Dively, age 59, is the Chairman of the Board of Directors, President and Chief Executive Officer of the Company since January 1, 2014 and the President of First Mid Bank since May 2011. Prior to assuming these positions in the Company, he was the Senior Executive Vice President of the Company beginning in May 2011. He was with Consolidated Communications Holdings, Inc. in Mattoon, Illinois from 2003 to May 2011.

Michael L. Taylor, age 50, has been Senior Executive Vice President since 2014 and Chief Operating Officer since July 2017. He served as Chief Financial Officer of the Company from 2000 to 2017. He served as Executive Vice President from 2007 to 2014 and as Vice President from 2000 to 2007. He was with AMCORE Bank in Rockford, Illinois from 1996 to 2000.

Matthew K. Smith, age 44, has been Executive Vice President of the Company since November 2016 and Chief Financial Officer since July 2017. He served as Director of Finance from November 2016 to July 2017. He was Treasurer and Vice President of Finance and Investor Relations with Consolidated Communications, Inc from 1997 to 2016.

Eric S. McRae, age 53, has been Executive Vice President of the Company and Executive Vice President, Chief Credit Officer of First Mid Bank since January 2017. He served as Senior Lender of First Mid Bank from December 2008 to December 2016 and he served as President of the Decatur region from 2001 to December 2008.

Bradley L. Beesley, age 47, has been Executive Vice President of the Company and Chief Trust & Wealth Management Officer of First Mid Bank since March 2015 and First Mid Wealth Management Company since July 2018. He served as Senior Vice President from May 2007 to March 2015.

Laurel G. Allenbaugh, age 58, has been Executive Vice President of the Company and Executive Vice President, Chief Operations Officer of First Mid Bank since April 2008. She served as Vice President of Operations from February 2000 to April 2008. She served as Controller of the Company and First Mid Bank from 1990 to February 2000 and has been President of MIDS since 1998.

Clay M. Dean, age 44, has been Executive Vice President of the Company since January 2019 and Senior Vice President of the Company since 2010 and Senior Vice President and Chief Insurance Services Officer of the First Mid Bank and Chief Executive Officer of First Mid Insurance since September 2014. He served as Senior Vice President, Chief Deposit Services Officer of First Mid Bank from November 2012 to September 2014 and as Senior Vice

President, Director of Treasury Management of First Mid Bank from 2010 to 2012.

Amanda D. Lewis, age 39, has been Executive Vice President of the Company since January 2019 and Senior Vice President of the Company and Senior Vice President, Retail Banking Officer of First Mid Bank since September 2014. She served as Vice President, Director of Marketing from 2001 until September 2014.

David Hiden, age 57, has been Senior Vice President, Chief Information Officer of the Company since July 2018.

Christopher L. Slabach, age 56, has been Senior Vice President of the Company since 2007 and Senior Vice President, Chief Risk Officer of First Mid Bank since 2008. He served as Vice President, Audit of the Company from 1998 to 2007.

Rhonda Gatons, age 47, has been Senior Vice President of the Company and Director of Human Resources since March 2016. Prior to joining the Company, she was the Director of Human Resources at Midland States Bank.

ITEM 1A. RISK
FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock.

Difficult economic conditions and market disruption have adversely impacted the banking industry and financial markets generally and may again significantly affect the business, financial condition, or results of operations of the Company. The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect its asset quality, deposit levels and loan demand and, therefore, its earnings.

The Company's profitability depends significantly on economic conditions in the geographic region in which it operates. A large percentage of the Company's loans are to individuals and businesses in Illinois, consequently, any decline in the economy of this market area could have a materially adverse effect on the Company's financial condition and results of operations.

Decline in the strength and stability of other financial institutions may adversely affect the Company's business. The actions and commercial soundness of other financial institutions could affect the Company's ability to engage in routine funding transactions. Financial services institutions are interrelated as a result of clearing, counterparty or other relationships. The Company has exposure to different counterparties, and executes transactions with various counterparties in the financial industry. Recent defaults by financial services institutions, and even rumors or questions about one or more financial services institutions or the financial services industry in general, led to market-wide liquidity problems in recent years and could lead to losses or defaults by the Company or by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client. Any such losses could materially and adversely affect the Company's results of operations.

Changes in interest rates may negatively affect our earnings. Changes in market interest rates and prices may adversely affect the Company's financial condition or results of operations. The Company's net interest income, its largest source of revenue, is highly dependent on achieving a positive spread between the interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in interest rates could negatively impact the Company's ability to attract deposits, make loans, and achieve a positive spread resulting in compression of the net interest margin.

The Company may not have sufficient cash or access to cash to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs and for other corporate purposes. This type of liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The Company's liquidity can be affected by a variety of factors, including general economic conditions, market disruption, operational problems affecting third parties or the Company, unfavorable pricing, competition, the Company's credit rating and regulatory restrictions. (See "Liquidity" herein for management's actions to mitigate this risk.)

If the Company were unable to borrow funds through access to capital markets, it may not be able to meet the cash flow requirements of its depositors, creditors, and borrowers, or the operating cash needed to fund corporate expansion and other corporate activities. As seen starting in the middle of 2007, significant turmoil and volatility in

worldwide financial markets can result in a disruption in the liquidity of financial markets, and could directly impact the Company to the extent it needs to access capital markets to raise funds to support its business and overall liquidity position. These types of situations could affect the cost of such funds or the Company's ability to raise such funds. If the Company were unable to access any of these funding sources when needed, it might be unable to meet customers' needs, which could adversely impact its financial condition, results of operations, cash flows, and level of regulatory-qualifying capital. For further discussion, see the "Liquidity" section.

Loan customers or other counter-parties may not be able to perform their contractual obligations resulting in a negative impact on the Company's earnings. Overall economic conditions affecting businesses and consumers, including the current difficult economic conditions and market disruptions, could impact the Company's credit losses. In addition, real estate valuations could also impact the Company's credit losses as the Company maintains \$1.7 billion in loans secured by commercial, agricultural, and residential real estate. A significant decline in real estate values could have a negative effect on the Company's financial condition and results of operations. In addition, the Company's total loan balances by industry exceeded 25% of total risk-based capital for each of five industries as of December 31, 2018. A listing of these industries is contained in under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Loans" herein. A significant change in one of these industries such as a significant decline in agricultural crop prices, could adversely impact the Company's credit losses.

Deterioration in the real estate market could lead to losses, which could have a material adverse effect on the business, financial condition and results of operations or the Company. Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

The allowance for loan losses may prove inadequate or be negatively affected by credit risk exposures. The Company's business depends on the creditworthiness of its customers. Management periodically reviews the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. There is no certainty that the allowance for loan losses will be adequate over time to cover credit losses in the portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry or group of customers changes materially, or if the allowance for loan losses is not adequate, the Company's business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

Declines in the value of securities held in the investment portfolio may negatively affect the Company's earnings and capital. The value of an investment in the portfolio could decrease due to changes in market factors. The market value of certain investment securities is volatile and future declines or other-than-temporary impairments could materially adversely affect the Company's future earnings and capital. Continued volatility in the market value of certain of the investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on the Company's accumulated other comprehensive loss and shareholders' equity depending upon the direction of the fluctuations.

Furthermore, future downgrades or defaults in these securities could result in future classifications as other-than-temporarily impaired. The Company has invested in trust preferred securities issued by financial institutions and insurance companies, corporate securities of financial institutions, and stock in the Federal Home Loan Bank of Chicago and Federal Reserve Bank of Chicago. Deterioration of the financial stability of the underlying financial institutions for these investments could result in other-than-temporary impairment charges to the Company and could have a material impact on future earnings. For further discussion of the Company's investments, see Note 4 – "Investment Securities."

A failure in or breach of the company's operational or security systems, or those of its third party service providers, including as a result of cyber-attacks, could disrupt the company's business, result in unintentional disclosure or misuse of confidential or proprietary information, damage the company's reputation, increase our costs and cause losses. As a financial institution, the company's operations rely heavily on the secure processing, storage and transmission of confidential and other information on its computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in the company's online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of these systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. Management cannot assert that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While certain protective policies and procedures are in place, the nature and sophistication of the threats continue to evolve. The Company may be required to expend significant additional resources in the future to modify and enhance these protective measures.

Additionally, the company faces the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate its business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, its operational systems. Any failures, interruptions or security breaches in the company's information systems could damage its reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

If the Company's stock price declines from levels at December 31, 2018, management will evaluate the goodwill balances for impairment, and if the values of the businesses have declined, the Company could recognize an impairment charge for its goodwill. Management performed an annual goodwill impairment assessment as of September 30, 2018. Based on these analyses, management concluded that the fair value of the Company's reporting units exceeded the fair value of its assets and liabilities and, therefore, goodwill was not considered impaired. It is possible that management's assumptions and conclusions regarding the valuation of the Company's lines of business could change adversely, which could result in the recognition of impairment for goodwill, which could have a material effect on the Company's financial position and future results of operations.

The Company may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing stockholders. In order to maintain capital at desired or regulatory-required levels, to replace existing capital, or to complete acquisitions the Company may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. The Company may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute stockholder ownership. The Company could also issue additional shares in connection with acquisitions of other financial institutions.

Human error, inadequate or failed internal processes and systems, and external events may have adverse effects on the Company. Operational risk includes compliance or legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices, or ethical standards. Operational risk also encompasses transaction risk, which includes losses from fraud, error, the inability to deliver products or services, and loss or theft of information. Losses resulting from operational risk could take the form of explicit charges, increased operational costs, harm to the Company's reputation or forgone opportunities. Any of these could potentially have a material adverse effect on the Company's reputation, financial condition and results of operations.

The Company is exposed to various business risks that could have a negative effect on the financial performance of the Company. These risks include: changes in customer behavior, changes in competition, new litigation or changes to existing litigation, claims and assessments, environmental liabilities, real or threatened acts of war or terrorist activity, adverse weather, changes in accounting standards, legislative or regulatory changes, taxing authority interpretations, and an inability on the Company's part to retain and attract skilled employees.

In addition to these risks identified by the Company, investments in the Company's common stock involve risk. The market price of the Company's common stock may fluctuate significantly in response to a number of factors including: volatility of stock market prices and volumes, rumors or erroneous information, changes in market valuations of similar companies, changes in securities analysts' estimates of financial performance, and variations in quarterly or annual operating results.

If the Company is unable to make favorable acquisitions or successfully integrate our acquisitions, the Company's growth could be impacted. In the past several years, the Company has completed acquisitions of banks, bank branches and other businesses. We may continue to make such acquisitions in the future. When the Company evaluates acquisition opportunities, the Company evaluates whether the target institution has a culture similar to the Company, experienced management and the potential to improve the financial performance of the Company. If the Company fails to successfully identify, complete and integrate favorable acquisitions, the Company could experience slower growth. Acquiring other banks, bank branches or businesses involves various risks commonly associated with acquisitions, including, among other things: potential exposure to unknown or contingent liabilities or asset quality issues of the target institution, difficulty and expense of integrating the operations and personnel of the target institution, potential disruption to the Company (including diversion of management's time and attention), difficulty in estimating the value of the target institution, and potential changes in banking or tax laws or regulations that may affect the target institution.

The Company and the banking industry are subject to government regulation, legislation and policy. Government regulation, legislation and policy affect the Company and the banking industry as a whole, including the Company's business and results of operations. The Company's results of operations could be adversely affected by changes in how existing regulations are interpreted or applied by government agencies, or by the adoption of new government regulation, legislation and policy. These changes may require the Company to invest significant funds and management attention and resources in order to reach compliance.

UNRESOLVED

ITEM 1B. STAFF

COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters is located at 1421 Charleston Avenue, Mattoon Illinois. This location is also used by the loan and deposit operations departments of First Mid Bank. In addition, the Company owns a facility located at 1500 Wabash Avenue, Mattoon, Illinois, which is used by branch support operations. In December 2018, the Company acquired a facility at 1420 Wabash Avenue which will also be used by branch support operations.

The main office of First Mid Bank is located at 1515 Charleston Avenue, Mattoon, Illinois and is owned by First Mid Bank. First Mid Bank also owns a building located at 1520 Charleston Avenue, which is used by First Mid Insurance, MIDS for its data processing and by First Mid Bank for back room operations. First Mid Bank also conducts business through numerous facilities, owned and leased, located in twenty-six counties throughout Illinois and one Missouri county. Of the fifty-five other banking offices operated by First Mid Bank, thirty-six are owned and twenty-one are leased from non-affiliated third parties. First Mid Bank also has a loan production office in metro Indianapolis. In addition, the acquired ten additional facilities in the acquisition of Soy Capital of which eight are owned and two are leased from non-affiliated third parties.

None of the properties owned by the Corporation are subject to any major encumbrances. The Company believes these facilities are suitable and adequate to operate its banking and related business. The net investment of the Company and subsidiaries in real estate and equipment at December 31, 2018 was \$59.1 million.

ITEM 3. LEGAL PROCEEDINGS

On February 13, 2018, an alleged class action complaint was filed by a purported stockholder of First Bank in the United States District Court for the District of Delaware captioned Parshall v. First BancTrust Corporation (Case No. 1:18-cv-00218) against the Company, Merger Sub, First Bank and members of First Bank's board of directors (the "Lawsuit"). The Lawsuit related to the Agreement and Plan of Merger, dated as of December 11, 2017 (as amended by the First Amendment to Agreement and Plan of Merger entered into as of January 18, 2018), among the Company, Merger Sub and First Bank and the merger contemplated thereby (the "Merger"). Among other things, the Lawsuit alleged that the Registration Statement on Form S-4 filed with the SEC by the Company on January 22, 2018 failed to disclose allegedly material information relating to the Company's and First Bank's financial projections, the analyses performed by First Bank's financial advisor, and alleged potential conflicts of interest of First Bank's officers, directors and financial advisor. The plaintiff sought, among other relief, to enjoin the Merger from proceeding. The Company believes that the factual allegations in the Lawsuit were without merit.

On March 9, 2018, in order to moot plaintiff's disclosure claims, reduce the expenses, burdens, risks and uncertainties inherent in litigation and avoid the risk of delaying or adversely affecting the Merger, in exchange for the plaintiff agreeing to withdraw the Lawsuit and dismiss his claims with prejudice, the Company and First Bank made additional supplemental disclosures to the proxy statement/prospectus related to the Merger that was first mailed to stockholders of First Bank on or about February 9, 2018. The agreement between the parties did not release or otherwise prejudice any potential claims of any member of the putative class other than the plaintiff and did not constitute any admission by any of the defendants as to the merits of any claims. In January 2019, the parties resolved the plaintiff's counsel's claim for an award of attorneys' fees and expenses pursuant to a confidential settlement agreement.

From time to time the Company and its subsidiaries may be involved in litigation that the Company believes is a type common to our industry. None of any such existing claims are believed to be individually material at this time to the Company, although the outcome of any such existing claims cannot be predicted with certainty.

ITEM 4. [RESERVED]

PART II

MARKET FOR
REGISTRANT'S
COMMON
EQUITY,
RELATEDITEM 5. SHAREHOLDER
MATTERS AND
ISSUER OF
PURCHASES OF
EQUITY
SECURITIES

The Company's common stock was held by approximately 1,031 shareholders of record as of December 31, 2018 and is included for quotation on the NASDAQ Stock Market, LLC under the trading symbol "FMBH".

The Company's shareholders are entitled to receive dividends as are declared by the Board of Directors, which considers payment of dividends semi-annually. The ability of the Company to pay dividends, as well as fund its operations, is dependent upon receipt of dividends from First Mid Bank. Regulatory authorities limit the amount of dividends that can be paid by First Mid Bank without prior approval from such authorities. For further discussion of the Bank's dividend restrictions, see Item 1 – "Business" – "First Mid Bank" – "Dividends" and Note 16 – "Dividend Restrictions" herein.

The following table summarizes share repurchase activity for the fourth quarter of 2018:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs at End of Period
October 1, 2018 – October 31, 2018	—	—	—	\$6,280,000
November 1, 2018 – November 30, 2018	—	—	—	6,280,000
December 1, 2018 – December 31, 2018	1,312	32.58	1,312	6,238,000
Total	1,312	\$32.58	1,312	\$6,238,000

All of the repurchase activity that occurred during 2018 resulted from shares withheld to cover taxes on employee stock vesting. Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately \$76.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

On August 5, 1998, repurchases of up to 3%, or \$2 million, of the Company's common stock.

- ¶ In March 2000, repurchases up to an additional 5%, or \$4.2 million of the Company's common stock.
- ¶ In September 2001, repurchases of \$3 million of additional shares of the Company's common stock.
- ¶ In August 2002, repurchases of \$5 million of additional shares of the Company's common stock.
- ¶ In September 2003, repurchases of \$10 million of additional shares of the Company's common stock.
- On April 27, 2004, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of \$2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 22, 2011, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2012 repurchases of \$5 million of additional shares of the Company's common stock.
- On November 19, 2013, repurchases of \$5 million additional shares of the Company's common stock.
- On October 28, 2014, repurchases of \$5 million additional shares of the Company's common stock.

SELECTED
ITEM 6. FINANCIAL
DATA

The following sets forth a five-year comparison of selected financial data (dollars in thousands, except per share data).

	2018	2017	2016	2015	2014	
Summary of Operations						
Interest income	\$ 124,565	\$ 99,555	\$ 75,496	\$ 59,251	\$ 54,734	
Interest expense	12,827	6,482	4,292	3,499	3,252	
Net interest income	111,738	93,073	71,204	55,752	51,482	
Provision for loan losses	8,667	7,462	2,826	1,318	629	
Other income	35,414	30,336	26,912	20,544	18,369	
Other expense	89,980	74,221	61,510	49,248	44,507	
Income before income taxes	48,505	41,726	33,780	25,730	24,715	
Income tax expense	11,905	15,042	11,940	9,218	9,254	
Net income	36,600	26,684	21,840	16,512	15,461	
Dividends on preferred shares	—	—	825	2,200	4,152	
Net income available to common stockholders	\$ 36,600	\$ 26,684	\$ 21,015	\$ 14,312	\$ 11,309	
Per Common Share Data						
Basic earnings per share	\$ 2.53	\$ 2.13	\$ 2.07	\$ 1.84	\$ 1.88	
Diluted earnings per share	2.52	2.13	2.05	1.81	1.85	
Dividends declared per share	0.70	0.66	0.62	0.59	0.55	
Book value per common share	28.57	24.32	22.51	21.01	19.55	
Tangible Book Value per common share	20.22	18.73	16.84	15,090.00	15.63	
Capital Ratios						
Total capital to risk-weighted assets	13.63	% 12.70	% 12.79	% 14.25	% 15.60	%
Tier 1 capital to risk-weighted assets	12.76	% 11.83	% 11.99	% 13.23	% 14.42	%
Common equity tier 1 ratio	11.81	% 10.78	% 10.86	% 9.92	% 10.32	%
Tier 1 capital to average assets	11.15	% 9.91	% 9.19	% 9.20	% 10.52	%
Financial Ratios						
Net interest margin	3.71	% 3.57	% 3.28	% 3.27	% 3.43	%
Return on average assets	1.13	% 0.94	% 0.94	% 0.91	% 0.97	%
Return on average common equity	9.59	% 8.92	% 9.30	% 8.97	% 10.34	%
Dividend on common shares payout ratio	27.67	% 30.99	% 29.95	% 32.07	% 29.26	%
Average equity to average assets	11.77	% 10.59	% 10.12	% 10.34	% 9.94	%
Allowance for loan losses as a percent of total loans	0.99	% 1.03	% 0.92	% 1.14	% 1.29	%
Year End Balances						
Total assets	\$ 3,839,734	\$ 2,841,539	\$ 2,884,535	\$ 2,114,499	\$ 1,607,103	
Net loans, including loans held for sale	2,618,330	1,919,524	1,809,239	1,267,313	1,048,724	
Total deposits	2,988,686	2,274,639	2,329,887	1,732,568	1,272,077	
Total equity	475,864	307,964	280,673	205,009	164,916	
Average Balances						
Total assets	\$ 3,241,574	\$ 2,825,702	\$ 2,333,866	\$ 1,807,998	\$ 1,593,227	
Net loans, including loans held for sale	2,253,469	1,818,317	1,439,192	1,112,413	1,008,980	
Total deposits	2,569,033	2,273,949	1,893,203	1,455,047	1,293,621	
Total equity	381,646	299,389	236,254	186,898	158,364	

MANAGEMENT'S
DISCUSSION
AND ANALYSIS
ITEM 7. OF FINANCIAL
CONDITION
AND RESULTS
OF OPERATIONS

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of the Company and its subsidiaries years ended December 31, 2018, 2017 and 2016. This discussion and analysis should be read in conjunction with the consolidated financial statements, related notes and selected financial data appearing elsewhere in this report.

Forward-Looking Statements

This report may contain certain forward-looking statements, such as discussions of the Company's pricing and fee trends, credit quality and outlook, liquidity, new business results, expansion plans, anticipated expenses and planned schedules. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Actual results could differ materially from the results indicated by these statements because the realization of those results is subject to many risks and uncertainties, including those described in Item 1A. "Risk Factors" and other sections of the Company's Annual Report on Form 10-K and the Company's other filings with the SEC, and changes in interest rates, general economic conditions and those in the Company's market area, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios and the valuation of the investment portfolio, the Company's success in raising capital, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles, policies and guidelines. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the SEC, we do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

For the Years Ended December 31, 2018, 2017 and 2016

Overview

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates, you should carefully read this entire document. These have an impact on the Company's financial condition and results of operations.

Net income was \$36.6 million, \$26.7 million, and \$21.8 million and diluted earnings per share were \$2.52, \$2.13, and \$2.05 for the years ended December 31, 2018, 2017 and 2016, respectively. The following table shows the Company's annualized performance ratios for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Return on average assets	1.13 %	0.94 %	0.94 %
Return on average common equity	9.59 %	8.92 %	9.30 %
Average common equity to average assets	11.77 %	10.59 %	10.12 %

Total assets at December 31, 2018, 2017 and 2016 were \$3.84 billion, \$2.84 billion, and \$2.88 billion, respectively. Net loan balances increased to \$2.62 billion at December 31, 2018, from \$1.92 billion at December 31, 2017, from \$1.81 billion at December 31, 2016. The increase in 2018 was primarily due to loans acquired in the acquisition of First Bank and Soy Capital Bank. Of the increase in 2017, \$58.5 million was due to increases in construction and land development loans and \$51.6 million was due to increases in commercial real estate loans.

Total deposit balances increased to \$2.99 billion at December 31, 2018 from \$2.27 billion at December 31, 2017 and from \$2.33 billion at December 31, 2016. The increase in 2018 was primarily due to deposits acquired in the acquisitions of First Bank and Soy Capital Bank. The decrease in 2017 was primarily due to a decrease in money market deposits and interest bearing deposits.

Net interest margin, defined as net interest income divided by average interest-earning assets, was 3.71% for 2018, 3.57% for 2017 and 3.28% for 2016. In 2018 the increase was primarily due to an increase in earnings assets, increases in average rates on earnings assets and accretion income from the acquisitions. In 2017, the increase was primarily due to an increase in earnings assets and net accretion income from the acquisition of First Clover Leaf.

Net interest income increased to \$111.7 million in 2018 from \$93.1 million in 2017 and \$71.2 million in 2016. During 2018, net interest income increased primarily due to earning assets acquired from First Bank and Soy Capital Bank, increases in rates on earnings assets and net accretion income from all acquisitions. In 2017, the net interest income increased primarily due to growth in average earnings assets including loans and investments and net accretion income from the acquisition of First Clover Leaf. In 2016, net interest income increased primarily due to growth in average earnings assets including loans and investments primarily due to the acquisition of First Clover Leaf and the ONB branches.

Non-interest income increased to \$35.4 million in 2018 compared to \$30.3 million in 2017 and \$26.9 million in 2016. Bank Owned Life insurance income decreased \$249,000 or 15.2% due to a non-recurring death benefit of \$511,000 received on a single policy in 2017. ATM revenue increased by \$992,000 or 15.3%, and service charge income increased \$515,000 or 7.4% primarily due to increased transactions. Insurance commissions increased \$1,720,000 or

44.4% compared to last year due to additional revenues from commissions and contingency income. Additionally, other income decreased \$761,000 primarily due to income tax refunds received in 2017 resulting from overpayment of taxes in 2016 by First Clover Leaf.

Non-interest expenses increased \$15.8 million, to \$90.0 million in 2018 compared to \$74.2 million in 2017, and \$61.5 million in 2016. The increase in 2018 was primarily due to expenses incurred to acquire and merge First Bank into First Mid Bank of approximately \$5 million, expenses to acquire Soy Capital of approximately \$900,000 and increases in salaries and benefits, occupancy and amortization expense related to these acquisitions. The increase during 2017 was primarily due to expenses of approximately \$2 million associated with the merger of First Clover Leaf into First Mid Bank and an increase in operating expenses from the addition of First Clover Leaf Bank. Additionally, salaries and benefits expense increased \$7.0 million or 17.7% compared to \$39.8 million at the same period last year. The increase during 2016 was primarily due to expenses incurred of \$1.3 million to acquire First Clover Leaf, expenses for the operation of the First Clover Leaf branches from acquisition in September to year-end and expense for the operation of the twelve ONB Branches acquired in August of 2015. In addition, 2016 salaries & benefits expense increased \$7.4 million or 22.9%, and occupancy and equipment expense increased \$1.2 million or 10.3%.

Following is a summary of the factors that contributed to the changes in net income (in thousands):

	2018 vs 2017	2017 vs 2016
Net interest income	\$18,665	\$21,869
Provision for loan losses	(1,205)	(4,636)
Other income, including securities transactions	5,078	3,424
Other expenses	(15,759)	(12,711)
Income taxes	3,137	(3,102)
Increase in net income	\$9,916	\$4,844

Credit quality is an area of importance to the Company. Year-end total nonperforming loans were \$39.8 million at December 31, 2018 compared to \$17.5 million at December 31, 2017, and \$18.2 million at December 31, 2016. The increase in 2018 was primarily due to non performing loans acquired from First Bank. Repossessed Assets balances totaled \$2.6 million at December 31, 2018 compared to \$2.8 million at December 31, 2017, and \$2 million at December 31, 2016. The increase in 2017 was primarily due to the addition of two 1-4 family residential borrowers and one commercial real estate borrower. The increase in 2016 was primarily due to properties acquired in the acquisition of First Clover Leaf Bank net of properties sold during 2016. The Company's provision for loan losses was \$8.7 million for 2018, compared to \$7.5 million for 2017, and \$2.8 million for 2016. The increase in provision expense in 2018 and 2017 was primarily due to increases in loan balances and net charge-offs. Loans secured by both commercial and residential real estate comprised 66%, 66%, and 67% of the loan portfolio for 2018, 2017, and 2016, respectively.

The Company's capital position remains strong and the Company has consistently maintained regulatory capital ratios above the "well-capitalized" standards. The Company's Tier 1 capital ratio to risk weighted assets ratio at December 31, 2018, 2017 and 2016 was 12.76%, 11.83%, and 11.99%, respectively. The Company's total capital to risk weighted assets ratio at December 31, 2018, 2017 and 2016 was 13.63%, 12.70% ,and 12.79%, respectively. In 2017, the capital ratios declined in the fourth quarter due to reduced net income resulting from expense following remeasurement of deferred tax assets and liabilities, an increase in loan loss provision, strong loan growth, which drove a higher capital allocation on risk-weighted assets. In 2016, the primary reason for the decrease in these ratios was the First Clover Leaf acquisition which increased risk-weighted assets by approximately \$649 million offset by stock issued of

approximately \$65.9 million, lower preferred dividends due to the conversion of Series C Preferred Stock, and the movement of cash from the Old National branch acquisition into loans and investments that require higher capital allocation.

The Company's liquidity position remains sufficient to fund operations and meet the requirements of borrowers, depositors, and creditors. The Company maintains various sources of liquidity to fund its cash needs. See "Liquidity" herein for a full listing of its sources and anticipated significant contractual obligations.

The Company enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. The total outstanding commitments at December 31, 2018, 2017 and 2016 were \$564.1 million, \$415.5 million, and \$485.1 million, respectively. See Note 17 – "Commitments and Contingent Liabilities" herein for further information.

Critical Accounting Policies and Use of Significant Estimates

The Company has established various accounting policies that govern the application of U.S. generally accepted accounting principles in the preparation of the Company's financial statements. The significant accounting policies of the Company are described in the footnotes to the consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and assumptions, which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Allowance for Loan Losses. The Company believes the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. An estimate of potential losses inherent in the loan portfolio are determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows and estimated collateral values. In assessing these factors, the Company uses organizational history and experience with credit decisions and related outcomes. The allowance for loan losses represents the best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The Company evaluates the allowance for loan losses quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for loan losses is adjusted.

The Company estimates the appropriate level of allowance for loan losses by separately evaluating impaired and nonimpaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

Other Real Estate Owned. Other real estate owned acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value temporarily declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense.

Investment in Debt Securities. The Company classifies its investments in debt securities as either held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which was codified into ASC 320. Securities classified as held-to-maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the financial position, results of operations and cash flows of the Company. If the estimated value of investments is less than the cost or amortized cost, the Company evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and the Company determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income.

Deferred Income Tax Assets/Liabilities. The Company's net deferred income tax asset arises from differences in the dates that items of income and expense enter into our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine if they are realizable based on the historical level of taxable income, estimates of future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on future profitability. If the Company were to experience net operating losses for tax purposes in a future period, the realization of deferred tax assets would be evaluated for a potential valuation reserve.

Additionally, the Company reviews its uncertain tax positions annually under FASB Interpretation No. 48 (FIN No. 48), "Accounting for Uncertainty in Income Taxes," codified within ASC 740. An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount actually recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the "more likely than not" test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Impairment of Goodwill and Intangible Assets. Core deposit and customer relationships, which are intangible assets with a finite life, are recorded on the Company's balance sheets. These intangible assets were capitalized as a result of past acquisitions and are being amortized over their estimated useful lives of up to 15 years. Core deposit intangible assets, with finite lives will be tested for impairment when changes in events or circumstances indicate that its carrying amount may not be recoverable. Core deposit intangible assets were tested for impairment during 2018 as part of the goodwill impairment test and no impairment was deemed necessary.

As a result of the Company's acquisition activity, goodwill, an intangible asset with an indefinite life, is reflected on the balance sheets. Goodwill is evaluated for impairment annually, unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently than annually.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Company estimates fair value. The Company's valuation methods consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

SFAS No. 157, "Fair Value Measurements", which was codified into ASC 820, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

Level 1 — quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — inputs that are unobservable and significant to the fair value measurement.

At the end of each quarter, the Company assesses the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon

the fair value at the beginning of the reporting period. A more detailed description of the fair values measured at each level of the fair value hierarchy can be found in Note 11 – “Disclosures of Fair Values of Financial Instruments.”

Results of Operations

Net Interest Income

The largest source of operating revenue for the Company is net interest income. Net interest income represents the difference between total interest income earned on earning assets and total interest expense paid on interest-bearing liabilities. The amount of interest income is dependent upon many factors, including the volume and mix of earning assets, the general level of interest rates and the dynamics of changes in interest rates. The cost of funds necessary to support earning assets varies with the volume and mix of interest-bearing liabilities and the rates paid to attract and retain such funds.

The Company's average balances, interest income and expense and rates earned or paid for major balance sheet categories are set forth in the following table (dollars in thousands):

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended December 31, 2016		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS									
Interest-bearing deposits	\$27,911	\$482	1.73 %	\$28,544	\$291	1.02 %	\$38,359	\$195	0.51 %
Federal funds sold	615	8	1.32 %	9,025	62	0.69 %	8,392	40	0.48 %
Certificates of deposit investments	3,013	66	2.18 %	3,317	50	1.50 %	28,777	295	1.02 %
Investment securities									
Taxable	514,220	13,070	2.54 %	559,657	11,708	2.09 %	514,096	9,260	1.80 %
Tax-exempt (1)	173,151	5,167	2.98 %	171,678	4,774	2.78 %	122,987	3,754	3.05 %
Loans (2) (3)	2,276,500	105,772	4.65 %	1,836,617	82,670	4.50 %	1,454,591	61,952	4.26 %
Total earning assets	2,995,410	124,565	4.16 %	2,608,838	99,555	3.82 %	2,167,202	75,496	3.47 %
Cash and due from banks	48,948			55,937			49,632		
Premises and equipment	45,780			39,176			33,389		
Other assets	174,467			140,051			99,042		
Allowance for loan losses	(23,031)			(18,300)			(15,399)		
Total assets	\$3,241,574			\$2,825,702			\$2,333,866		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Deposits:									
Demand deposits, interest-bearing	\$1,194,089	3,293	0.28 %	\$1,119,835	1,811	0.16 %	\$881,994	993	0.11 %
Savings deposits	395,028	579	0.15 %	367,261	486	0.13 %	340,746	445	0.13 %
Time deposits	473,043	4,699	0.99 %	348,278	1,697	0.49 %	298,124	1,275	0.43 %
Securities sold under agreements									
to repurchase	140,622	330	0.23 %	144,674	181	0.13 %	129,734	96	0.07 %
FHLB advances	97,701	2,071	2.12 %	57,405	883	1.54 %	36,648	630	1.72 %
Federal funds purchased	3,794	97	2.55 %	3,996	61	1.51 %	1,795	14	0.77 %
Subordinated debentures	27,391	1,409	5.14 %	23,956	927	3.87 %	21,650	672	3.10 %
Other debt	10,103	349	3.45 %	13,289	436	3.28 %	6,202	167	2.69 %
Total interest-bearing liabilities	2,341,771	12,827	0.55 %	2,078,694	6,482	0.31 %	1,716,893	4,292	0.25 %
Demand deposits	506,873			438,575			372,339		
Other liabilities	11,284			9,144			8,380		
Stockholders' equity	381,646			299,289			236,254		
Total liabilities & equity	\$3,241,574			\$2,825,702			\$2,333,866		
Net interest income		\$111,738			\$93,073			\$71,204	
Net interest spread			3.61 %			3.51 %			3.22 %
Impact of non-interest bearing funds			0.10 %			0.06 %			0.06 %
Net yield on interest-earning assets			3.71 %			3.57 %			3.28 %

(1) The tax-exempt income is not recorded on a tax equivalent basis.

(2) Nonaccrual loans have been included in the average balances.

(3) Includes loans held for sale.

Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the past two years (in thousands):

	2018 Compared to 2017			2017 Compared to 2016		
	Increase – (Decrease)			Increase – (Decrease)		
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)
Earning Assets:						
Interest-bearing deposits	\$191	\$(6)	\$197	\$96	\$(60)	\$156
Federal funds sold	(54)	(85)	31	22	3	19
Certificates of deposit investments	16	(5)	21	(245)	(340)	95
Investment securities:						
Taxable	1,362	(1,006)	2,368	2,448	869	1,579
Tax-exempt (2)	393	41	352	1,020	1,378	(358)
Loans (3)	23,102	20,280	2,822	20,718	17,059	3,659
Total interest income	25,010	19,219	5,791	24,059	18,909	5,150
Interest-Bearing Liabilities:						
Deposits:						
Demand deposits, interest-bearing	1,482	121	1,361	818	305	513
Savings deposits	93	31	62	41	41	—
Time deposits	3,002	780	2,222	422	231	191
Securities sold under agreements to repurchase						
FHLB advances	149	(5)	154	85	10	75
Federal funds purchased	1,188	773	415	253	325	(72)
Subordinated debentures	36	(3)	39	47	27	20
Other debt	482	147	335	255	76	179
Total interest expense	(87)	(109)	22	269	225	44
Total interest expense	6,345	1,735	4,610	2,190	1,240	950
Net interest income	\$18,665	\$17,484	\$1,181	\$21,869	\$17,669	\$4,200

(1) Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

(2) The tax-exempt income is not recorded on a tax equivalent basis.

(3) Nonaccrual loans are not material and have been included in the average balances.

Net interest income increased \$18.7 million or 20.1% in 2018 compared to an increase of \$21.9 million or 30.7% in 2017. Net interest income increased primarily due to the growth in average earnings assets including loans and investments acquired from First Bank and Soy Capital Bank. The net interest margin was higher due to growth in earnings assets, increases in rates on earning assets and net accretion income related to the acquisition of First Bank and Soy Capital Bank.

In 2018, average earning assets increased by \$386.6 million, or 14.8%, and average interest-bearing liabilities increased by \$263.1 million or 12.7%. In 2017, average earning assets increased by \$441.6 million or 20.4% and average interest-bearing liabilities increased \$361.8 million or 21.1% compared with 2016. Changes in average balances are shown below:

Average interest-bearing deposits held by the Company decreased \$0.6 million or 2.2% in 2018 compared to 2017. In 2017, average interest-bearing deposits held by the Company decreased \$9.8 million or 25.6% compared to 2016.

Average federal funds sold decreased \$8.4 million or 93.2% in 2018 compared to 2017. In 2017, average federal funds sold increased \$633,000 or 7.5% compared to 2016.

Average certificates of deposit investments decreased \$0.3 million or 9.2% in 2018 compared to 2017. In 2017, average certificates of deposit investments decreased \$25.5 million or 88.5% compared to 2016.

Average loans increased by \$439.9 million or 24.0% in 2018 compared to 2017. In 2017, average loans increased by \$382.0 million or 26.3% compared to 2016.

Average securities decreased by \$44.0 million or 6.0% in 2018 compared to 2017. In 2017, average securities increased by \$94.3 million or 14.8% compared to 2016.

Average deposits increased by \$226.8 million or 12.4% in 2018 compared to 2017. In 2017, average deposits increased by \$314.5 million or 20.7% compared to 2016.

- Average securities sold under agreements to repurchase decreased by \$4.1 million or 2.8% in 2018 compared to 2017. In 2017, average securities sold under agreements to repurchase increased by \$14.9 million or 11.5% compared to 2016.

Average borrowings and other debt increased by \$40.3 million or 40.9% in 2018 compared to 2017. In 2017, average borrowings and other debt increased by \$32.4 million or 48.8% compared to 2016.

Net interest margin increased to 3.71% compared to 3.57% in 2017 and 3.28% in 2016. Asset yields increased by 34 basis points in 2018, and interest-bearing liabilities increased by 24 basis points.

To compare the tax-exempt yields on interest-earning assets to taxable yields, the Company also computes non-GAAP net interest income on a tax equivalent basis where the interest earned on tax-exempt securities is adjusted to an amount comparable to interest subject to normal income taxes, assuming a federal tax rate of 21% for 2018 and 35% for 2017 and 2016 (referred to as the tax equivalent adjustment). The tax equivalent basis adjustments to net interest income for 2018, 2017 and 2016 were \$2,025,000, \$3,404,000, and \$2,428,000, respectively. The net yield on interest-earning assets on a tax equivalent basis was 3.79% in 2018, 3.70% in 2017 and 3.39% in 2016.

Provision for Loan Losses

The provision for loan losses in 2018 was \$8,667,000 compared to \$7,462,000 in 2017 and \$2,826,000 in 2016. Nonperforming loans increased to \$39,839,000 at December 31, 2018 from \$17,513,000 at December 31, 2017 and \$18,241,000 at December 31, 2016. The increase in provision expense in 2018 and 2017 was primarily due to an increase in loan volume. Net charge-offs were \$2,455,000 during 2018, \$4,238,000 during 2017 and \$649,000 during 2016. For information on loan loss experience and nonperforming loans, see “Nonperforming Loans and Repossessed Assets” and “Loan Quality and Allowance for Loan Losses” herein.

Other Income

An important source of the Company’s revenue is derived from other income. The following table sets forth the major components of other income for the last three years (in thousands):

	2018	2017	2016	\$ Change From Prior Year	
	2018	2017	2016	2018	2017
Trust	\$5,786	\$3,744	\$3,517	\$2,042	\$227
Brokerage	2,674	2,161	1,908	513	253
Insurance commissions	5,592	3,872	3,452	1,720	420
Service charges	7,435	6,920	6,791	515	129
Securities gains	901	616	1,192	285	(576)
Mortgage banking	1,205	1,184	1,172	21	12
ATM / debit card revenue	7,487	6,495	6,004	992	491

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Bank Owned Life Insurance	1,389	1,638	671	(249)	967
Other	2,945	3,706	2,205	(761)	1,501
Total other income	\$35,414	\$30,336	\$26,912	\$5,078		\$3,424

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Total non-interest income increased to \$35.4 million in 2018 compared to \$30.3 million in 2017 and \$26.9 million in 2016. The primary reasons for the more significant year-to-year changes in other income components are as follows:

Trust revenues increased \$2,042,000 or 54.5% in 2018 to \$5,786,000 from \$3,744,000 in 2017 compared to \$3,517,000 in 2016. The increases 2018 were due to an increases in market value and revenue from defined contribution and other retirement accounts and accounts added with the acquisition of Soy Capital. Trust assets under management were \$1,129.6 million at December 31, 2018 compared to \$997.8 million at December 31, 2017 and \$831.6 million at December 31, 2016.

Revenue from brokerage increased \$513,000 or 23.7% to \$2,674,000 in 2018 from \$2,161,000 in 2017 and \$1,908,000 in 2016 primarily due to an increase in the number of brokerage accounts from new business development efforts.

Insurance commissions increased \$1,720,000 or 44.4% to \$5,592,000 in 2018 from \$3,872,000 in 2017 and \$3,452,000 in 2016. The growth is primarily due to growth in senior care policies underwritten through the Illiana Insurance Agency branch from insurance activities and revenues following the acquisition of Soy Capital.

Fees from service charges increased \$515,000 or 7.4% to \$7,435,000 in 2018 from \$6,920,000 in 2017 and \$6,791,000 in 2016. The increase in 2018 was primarily due to a increase in income from the First Bank acquisition. The increase in 2017 was due to First Clover Leaf acquisition in place for a full year.

Net securities gains in 2018 were \$901,000 compared to \$616,000 in 2017 and \$1,192,000 in 2016.

Mortgage banking income increased \$21,000 or 1.8% to \$1,205,000 in 2018 from \$1,184,000 in 2017 and \$1,172,000 in 2016. Loans sold balances are as follows:

\$62 million (representing 489 loans) in 2018

\$68 million (representing 536 loans) in 2017

\$80 million (representing 566 loans) in 2016

First Mid Bank generally releases the servicing rights on loans sold into the secondary market.

Revenue from ATMs and debit cards increased \$992,000 or 15.3% to \$7,487,000 in 2018 from \$6,495,000 in 2017 and \$6,004,000 in 2016. The increase in 2018 was primarily due to an increase in electronic transactions following the First Bank and Soy Capital Bank acquisition. The increases during 2017 were primarily due to an increase in electronic transactions following the acquisition of First Clover Leaf and quarterly incentives received from VISA.

Bank owned life insurance decreased \$249,000 or 15.2% to \$1,389,000 in 2018 from \$1,638,000 in 2017 and \$671,000 in 2016. The decrease is primarily due to a death benefit of \$511,000 that was received in 2017 that did not recur in 2018. The Company invested \$25 million in bank owned life insurance during the first quarter of 2016, acquired \$8.6 million in bank owned life insurance in the First Bank acquisition in 2018, and acquired \$13.6 million in bank owned life insurance in the Soy Capital acquisition in 2018, and acquired \$15.6 million in bank owned life insurance in the First Clover Leaf acquisition in 2016.

Other income decreased \$761,000 or 20.5% in 2018 to \$2,945,000 from \$3,706,000 in 2017 and \$2,205,000 in 2016. The decrease was primarily due to income tax refunds received in 2017 resulting from overpayment of taxes in 2016 by First Clover Leaf Financial and a decline in loan late charges and closing fees resulting from less loan transaction activity. The increase from 2016 to 2017 is primarily due to income tax refunds resulting from overpayment of taxes in 2016 by First Clover Leaf Bank and increases in various loan fees.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the last three years (in thousands):

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	2018	2017	2016	\$ Change From Prior Year	
				2018	2017
Salaries and benefits	\$46,803	\$39,756	\$32,354	\$7,047	\$7,402
Occupancy and equipment	14,533	12,596	11,418	1,937	1,178
Other real estate owned, net	282	560	60	(278)) 500
FDIC insurance assessment expense	1,059	905	966	154	(61)
Amortization of other intangibles	3,215	2,153	1,909	1,062	244
Stationery and supplies	963	724	815	239	(91)
Legal and professional fees	5,243	3,887	3,035	1,356	852
Marketing and promotion	1,794	1,356	1,845	438	(489)
Other	16,088	12,284	9,108	3,804	3,176
Total other expense	\$89,980	\$74,221	\$61,510	\$15,759	\$12,711

Total non-interest expense increased to \$90.0 million in 2018 from \$74.2 million in 2017 and \$61.5 million in 2016. The primary reasons for the more significant year-to-year changes in other expense components are as follows:

Salaries and employee benefits, the largest component of other expense, increased \$7.0 million or 17.7% to \$46.8 million from \$39.8 million in 2017, and \$32.4 million in 2016. The increase is primarily due to the addition of 112 employees from the First Bank acquisition, the addition of 149 employees from the Soy Capital Bank acquisition and merit increases in 2018 for continuing employees during the first quarter of 2018. The increase in 2017 is primarily due to merit increases for continuing employees and a full year of expenses for the acquired First Clover Leaf employees. There were 818 full-time equivalent employees at December 31, 2018, compared to 592 at December 31, 2017, and 598 at December 31, 2016.

Occupancy and equipment expense increased \$1,937,000 or 15.4% to \$14.5 million in 2018 from \$12.6 million in 2017, and \$11.4 million in 2016. The increase in 2018 was primarily due to increases in maintenance and repair expenses, rent expense, and building insurance related to the acquisition of First Bank and Soy Capital Bank. The increase in 2017 and 2016 was primarily due to increases in rent, property taxes, and depreciation expenses related to the acquisition of First Clover Leaf Bank during the third quarter of 2016.

Net other real estate owned expense decreased \$278,000 or 49.6% to \$282,000 from \$560,000 in 2017, and \$60,000 in 2016. The decrease in 2018 was primarily due to more gains on properties sold during 2017 than properties sold in 2018. The increase in 2017 was primarily due to a write down of one property to the appraised value and real estate taxes and maintenance expenses on properties owned.

FDIC insurance expense increased \$154,000 or 17.0% to \$1,059,000 from \$905,000 in 2017, and \$966,000 in 2016. The increase in 2018 was primarily due to an increase in average assets offset by a decline in FDIC rates. The decrease in 2017 was primarily due to a decline in FDIC rates.

Amortization of other intangibles expense increased \$1,062,000 or 49.3% to \$3,215,000 from \$2,153,000 in 2017, and \$1,909,000 in 2016. The increase in 2018 was due to amortization of core deposit intangibles from the First Bank and Soy Capital acquisitions. The increase in 2017 was due to a full year of amortization of deposit premium for First Clover Leaf Bank.

Other operating expenses increased \$3,804,000 or 31.0% to \$16,088,000 from \$12,284,000 in 2017, and \$9,108,000 in 2016. The increase in 2018 was primarily due to costs associated with the acquisition and merger of First Bank and the acquisition of Soy Capital Bank. The increase in 2017 was primarily due to additional expenses from First Clover Leaf locations and costs associated with the merger of First Clover Leaf Bank during the first quarter of 2017.

On a net basis, all other categories of operating expenses increased \$2,033,000 or 34.1% to \$8,000,000 from \$5,967,000 in 2017, and \$5,695,000 in 2016. The increase is primarily due to an increase in legal and professional fees primarily associated with the acquisitions of First Bank and Soy Capital. The increase from 2016 to 2017 was primarily due to an increase in legal expenses, primarily due to acquisition and loan collection related expenses.

Income Taxes

Income tax expense amounted to \$11,905,000 in 2018 compared to \$15,042,000 in 2017, and \$11,940,000 in 2016. Effective tax rates were 24.5% for 2018, 36.0% for 2017, and 35.3% for 2016. The decline in effective tax rate for 2018 compared to 2017 was primarily due to a change in federal statutory corporate tax rate from 35% to 21% effective January 1, 2018. The increases in tax expense and the effective tax rate for 2017 were primarily due to an increase in taxable income, and increase in Illinois corporate income tax rate from 7.75% to 9.50% effective July 1, 2017, and additional one-time income tax expense of approximately \$1.4 million during the fourth quarter of 2017, due to remeasurement of deferred tax assets and liabilities because of the Tax Cut and Jobs Act.

The Company files U.S. federal and state of Illinois, Indiana, and Missouri income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2015.

Analysis of Balance Sheets

Securities

The Company's overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the amortized cost of the available-for-sale and held-to-maturity securities for the last three years (dollars in thousands):

	December 31,					
	2018		2017		2016	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$270,816	2.38 %	\$185,128	1.98 %	\$213,050	1.83 %
Obligations of states and political subdivisions	193,195	2.94 %	165,037	2.86 %	164,163	2.80 %
Mortgage-backed securities: GSE residential	304,372	2.86 %	295,778	2.59 %	318,829	2.57 %
Trust preferred securities	—	— %	2,893	2.15 %	3,050	1.86 %
Other securities	2,278	3.58 %	2,039	2.50 %	4,034	2.14 %
Total securities	\$770,661	2.72 %	\$650,875	2.55 %	\$703,126	2.39 %

At December 31, 2018, the amortized cost of the Company's investment portfolio increased by \$119.8 million from December 31, 2017 primarily due to securities that were added in the acquisitions of First Bank and Soy Capital, net of declines due to securities that were sold to provide cash flow to fund loans. At December 31, 2017, the amortized cost of the Company's investment portfolio decreased by \$52.3 million from December 31, 2016 primarily due to securities that were sold to provide cash flow to fund loans. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed.

The table below presents the credit ratings as of December 31, 2018 for certain investment securities (in thousands):

	Amortized Cost	Estimated Fair Value	Average Credit Rating of Fair Value at December 31, 2018 (1)					< BBB -	Not rated
			AAA	AA +/-	A +/-	BBB +/-			
Available-for-sale:									
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$201,380	\$198,649	\$—	\$198,649	\$—	\$—	\$—	\$—	
Obligations of state and political subdivisions	193,195	192,579	18,923	118,627	51,753	495	—	2,781	
Mortgage-backed securities (2)	304,372	298,672	1,017	—	—	—	—	297,655	
Trust preferred securities	—	—	—	—	—	—	—	—	
Other securities	2,278	2,374	—	—	—	2,010	—	364	
Total investments	\$701,225	\$692,274	\$19,940	\$317,276	\$51,753	\$2,505	\$—	-\$300,800	
Held-to-maturity:									
	\$69,436	\$67,909	\$—	\$67,909				\$—	

U.S. Treasury securities and obligations of
U.S. government corporations and
agencies

(1) Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

(2) Mortgage-backed securities include mortgage-backed securities (MBS) and collateralized mortgage obligation (CMO) issues from the following government sponsored enterprises: FHLMC, FNMA, GNMA and FHLB. While MBS and CMOs are no longer explicitly rated by credit rating agencies, the industry recognizes that they are backed by agencies which have an implied government guarantee.

Other-than-temporary Impairment of Securities

Declines in the fair value, or unrealized losses, of all available for sale investment securities, are reviewed to determine whether the losses are either a temporary impairment or OTTI. Temporary adjustments are recorded when the fair value of a security fluctuates from its historical cost. Temporary adjustments are recorded in accumulated other comprehensive income, and impact the Company's equity position. Temporary adjustments do not impact net income. A recovery of available for sale security prices also is recorded as an adjustment to other comprehensive income for securities that are temporarily impaired, and results in a positive impact to the Company's equity position.

OTTI is recorded when the fair value of an available for sale security is less than historical cost, and it is probable that all contractual cash flows will not be collected. Investment securities are evaluated for OTTI on at least a quarterly basis. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- how much fair value has declined below amortized cost;
- how long the decline in fair value has existed;
- the financial condition of the issuers;
- contractual or estimated cash flows of the security;
- underlying supporting collateral;
- past events, current conditions and forecasts;
- significant rating agency changes on the issuer; and
- the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, the entire amount of OTTI is recorded to noninterest income, and therefore, results in a negative impact to net income. Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact the Company's equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income/loss. If the Company does not intend to sell the security and it is not more-likely-than-not it will be required to sell the security before recovery of its amortized cost basis, only the amount related to credit loss is recognized in earnings. In determining the portion of OTTI that is related to credit loss, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. The remaining portion of OTTI, related to other factors, is recognized in other comprehensive earnings, net of applicable taxes. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. See Note 4 -- Investment Securities in the notes to the financial statements for a discussion of the Company's evaluation and, when applicable, charges for OTTI.

Loans

The loan portfolio (net of unearned interest) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio, including loans held for sale, for the last five years (in thousands):

	2018	% Outstanding	2017	2016	2015	2014
		Loans				
Construction and land development	\$50,619	1.9 %	\$107,594	\$49,104	\$39,209	\$21,627
Farm loans	231,700	8.8 %	127,183	126,108	122,474	110,193

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1-4 Family residential properties	373,518	14.1	%	293,667	326,415	231,571	181,921
Multifamily residential properties	184,051	7.0	%	61,798	83,200	45,740	53,129
Commercial real estate	906,850	34.2	%	681,757	630,135	409,172	379,604
Loans secured by real estate	1,746,738	66.0	%	1,271,999	1,214,962	848,166	746,474
Agricultural loans	135,877	5.1	%	86,631	86,685	75,886	68,298
Commercial and industrial loans	557,011	21.1	%	444,263	409,033	305,060	223,780
Consumer loans	91,516	3.5	%	29,749	38,028	41,579	15,118
All other loans	113,377	4.3	%	106,859	77,284	11,198	8,736
Total loans	\$2,644,519	100.0	%	\$1,939,501	\$1,825,992	\$1,281,889	\$1,062,406

Loan balances increased by \$705.0 million or 36.4% from December 31, 2017 to December 31, 2018 primarily due to loans acquired from First Bank and Soy Capital Bank. Loan balances increased by \$113.5 million or 6.2% from December 31, 2016 to December 31, 2017 primarily due to increases in construction and land development, commercial operating, and commercial real estate loans. The balances of loans sold into the secondary market were \$62.3 million in 2018 compared to \$67.5 million in 2017. The balance of real estate loans held for sale, included in the balances shown above, amounted to \$1,508,000 and \$1,025,000 as of December 31, 2018 and 2017, respectively.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Company does not have any sub-prime mortgages or credit card loans outstanding which are also generally considered to be higher credit risk.

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The following table summarizes the loan portfolio geographically by branch region as of December 31, 2018 and 2017 (dollars in thousands):

	December 31, 2018			December 31, 2017		
	Principal balance	% Outstanding Loans		Principal balance	% Outstanding Loans	
Central region	\$571,909	21.7	%	\$543,938	28.0	%
Sullivan region	375,407	14.2	%	167,977	8.7	%
Decatur region	501,743	19.0	%	378,867	19.5	%
Peoria region	291,283	11.0	%	189,639	9.8	%
Highland region	518,881	19.6	%	525,983	27.1	%
Southern region	133,225	5.0	%	133,097	6.9	%
Soy Capital Bank	252,071	9.5	%	—	—	%
Total all regions	\$2,644,519	100.0	%	\$1,939,501	100.0	%

Loans are geographically dispersed among these regions located in central and southwestern Illinois. While these regions have experienced some economic stress during 2018 and 2017, the Company does not consider these locations high risk areas since these regions have not experienced the significant volatility in real estate values seen in some other areas in the United States.

The Company does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of total risk-based capital for the periods shown above. At December 31, 2018 and 2017, the Company did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	December 31, 2018			December 31, 2017		
	Principal balance	% Outstanding Loans		Principal balance	% Outstanding Loans	
Other grain farming	\$276,142	10.44	%	\$170,758	8.80	%
Lessors of non-residential buildings	250,495	9.47	%	185,967	9.59	%
Lessors of residential buildings & dwellings	289,169	10.93	%	131,756	6.79	%
Hotels and motels	129,216	4.89	%	131,702	6.79	%
Other Gambling Industries	105,259	3.98	%	95,713	4.93	%

The Company had no further industry loan concentrations in excess of 25% of total risk-based capital.

The following table presents the balance of loans outstanding as of December 31, 2018, by contractual maturities (in thousands):

	Maturity (1)			Total
	One year or less(2)	Over 1 through 5 years	Over 5 years	
Construction and land development	\$29,636	\$9,836	\$11,147	\$50,619
Farm loans	10,472	76,472	144,756	231,700
1-4 Family residential properties	28,985	82,628	261,905	373,518
Multifamily residential properties	11,380	126,850	45,821	184,051

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Commercial real estate	87,732	369,957	449,161	906,850
Loans secured by real estate	168,205	665,743	912,790	1,746,738
Agricultural loans	104,746	27,121	4,010	135,877
Commercial and industrial loans	218,470	281,843	56,698	557,011
Consumer loans	5,288	74,996	11,232	91,516
All other loans	12,468	33,052	67,857	113,377
Total loans	\$509,177	\$1,082,755	\$1,052,587	\$2,644,519

(1) Based upon remaining contractual maturity.

(2) Includes demand loans, past due loans and overdrafts.

As of December 31, 2018, loans with maturities over one year consisted of approximately \$1.6 billion in fixed rate loans and approximately \$557 million in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Nonperforming Other Assets

Nonperforming loans include: (a) loans accounted for on a nonaccrual basis; (b) accruing loans contractually past due ninety days or more as to interest or principal payments; and (c) loans not included in (a) and (b) above which are defined as “troubled debt restructurings”. Repossessed assets include primarily repossessed real estate and automobiles.

The Company’s policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

Restructured loans are loans on which, due to deterioration in the borrower’s financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. Repossessed assets represent property acquired as the result of borrower defaults on loans. These assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure or repossession. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs for subsequent declines in value are recorded in non-interest expense in other real estate owned along with other expenses related to maintaining the properties.

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets (in thousands):

	December 31,					
	2018	2017	2016	2015	2014	
Nonaccrual loans	\$27,298	\$16,659	\$12,053	\$3,412	\$4,105	
Restructured loans which are performing in accordance with revised terms	2,451	854	6,185	601	435	
Total nonperforming loans	29,749	17,513	18,238	4,013	4,540	
Repossessed assets	2,595	2,834	1,985	478	263	
Total nonperforming loans and repossessed assets	\$32,344	\$20,347	\$20,223	\$4,491	\$4,803	
Nonperforming loans to loans, before allowance for loan losses	1.12	% 0.90	% 1.00	% 0.31	% 0.43	%
Nonperforming loans and repossessed assets to loans, before allowance for loan losses	1.22	% 1.05	% 1.11	% 0.35	% 0.45	%

The \$10.6 million increase in nonaccrual loans during 2018 resulted from the net of \$14.7 million of loans put on nonaccrual status including \$2,242,000 acquired from First Bank and \$344,000 acquired from Soy Capital Bank, offset by \$235,000 of loans transferred to other real estate owned, \$564,000 of loans charged off and \$3.3 million of loans becoming current or paid-off. The amounts above do not include loans formerly identified as TDRs by Soy Capital Bank. The following table summarizes the composition of nonaccrual loans (in thousands):

	December 31, 2018		December 31, 2017	
	Balance	% of Total	Balance	% of Total
Construction and land development	\$377	1.4 %	\$—	— %
Farm loans	309	1.1 %	291	1.7 %
1-4 Family residential properties	5,762	21.1 %	2,687	16.1 %
Multifamily residential properties	2,105	7.7 %	368	2.2 %
Commercial real estate	8,457	31.1 %	5,596	33.6 %
Loans secured by real estate	17,010	62.4 %	8,942	53.6 %
Agricultural loans	667	2.4 %	757	4.5 %
Commercial and industrial loans	8,990	32.9 %	6,658	40.1 %
Consumer loans	625	2.3 %	302	1.8 %
All Other loans	6	— %	—	— %
Total loans	\$27,298	100.0 %	\$16,659	100.0 %

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled \$1,189,000, \$471,000 and \$133,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

The \$239,000 decrease in repossessed assets during 2018 resulted from the net of \$619,000 of additional assets repossessed, \$1,408,000 assets acquired, \$1,729,000 of repossessed assets sold and \$537,000 of further write-downs of repossessed assets to current market value. The following table summarizes the composition of repossessed assets (in thousands):

	December 31, 2018		December 31, 2017		
	Balance	% of Total	Balance	% of Total	
Construction and land development	\$ 1,513	58.2 %	\$ 1,781	62.7 %	
Farm Loans	—	— %	—	— %	
1-4 family residential properties	583	22.5 %	413	14.6 %	
Multi-family residential properties	—	— %	—	— %	
Commercial real estate	438	16.9 %	560	19.8 %	
Total real estate	2,534	97.6 %	2,754	97.1 %	
Agricultural Loans	—	— %	—	— %	
Commercial & Industrial Loans	61	2.4 %	44	1.6 %	
Consumer Loans	—	— %	36	1.3 %	
Total repossessed collateral	\$2,595	100.0 %	\$2,834	100.0 %	

Repossessed assets sold during 2018 resulted in net losses of \$132,000, of which \$120,000 of net losses was related to real estate asset sales and \$12,000 of net losses was related to other repossessed assets.

Loan Quality and Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by management as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Once identified, the magnitude of exposure to individual borrowers is quantified in the form of specific allocations of the allowance for loan losses. Management considers collateral values and guarantees in the determination of such specific allocations. Additional factors considered by management in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and renegotiated loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates.

Given the current state of the economy, management did assess the impact of the recession on each category of loans and adjusted historical loss factors for more recent economic trends. Management utilizes a five-year loss history as one of several components in assessing the probability of inherent future losses. Given the continued weakened economic conditions, management also increased its allocation to various loan categories for economic factors during 2015 and 2014. Some of the economic factors include the potential for reduced cash flow for commercial operating loans from reduction in sales or

increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the uncertainty regarding grain prices, drought conditions and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for loan losses a critical accounting policy.

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in central and southern Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At December 31, 2018, the Company's loan portfolio included \$367.6 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, \$276.1 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased \$153.8 million from \$213.8 million at December 31, 2017 while loans concentrated in other grain farming increased \$105.3 million from \$170.8 million at December 31, 2017.

While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has \$129.2 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company

also has \$250.5 million of loans to lessors of non-residential buildings and \$289.2 million of loans to lessors of residential buildings and dwellings, and \$105.3 million to other gambling industries.

The structure of the Company's loan approval process is based on progressively larger lending authorities granted to individual loan officers, loan committees, and ultimately the Board of Directors. Outstanding balances to one borrower or affiliated borrowers are limited by federal regulation; however, limits well below the regulatory thresholds are generally observed. The vast majority of the Company's loans are to businesses located in the geographic market areas served by the Company's branch bank system. Additionally, a significant portion of the collateral securing the loans in the portfolio is located within the Company's primary geographic footprint. In general, the Company adheres to loan underwriting standards consistent with industry guidelines for all loan segments.

The Company minimizes credit risk by adhering to sound underwriting and credit review policies. Management and the Board of Directors of the Company review these policies at least annually. Senior management is actively involved in business development efforts and the maintenance and monitoring of credit underwriting and approval. The loan review system and controls are designed to identify, monitor and address asset quality problems in an accurate and timely manner. On a quarterly basis, the Board of Directors and management review the status of problem loans and determine a best estimate of the allowance. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for loan losses.

Analysis of the allowance for loan losses for the past five years and of changes in the allowance for these periods is summarized as follows (dollars in thousands):

	2018	2017	2016	2015	2014	
Average loans outstanding, net of unearned income	\$2,276,500	\$1,836,617	\$1,454,591	\$1,126,479	\$1,022,605	
Allowance-beginning of period	19,977	16,753	14,576	13,682	13,249	
Charge-offs:						
Real estate-mortgage	1,281	1,025	381	131	185	
Commercial, financial & agricultural	925	3,649	630	222	41	
Installment	364	98	292	285	63	
Other	423	423	372	268	248	
Total charge-offs	2,993	5,195	1,675	906	537	
Recoveries:						
Real estate-mortgage	91	406	529	186	110	
Commercial, financial & agricultural	133	281	283	120	78	
Installment	80	27	25	24	26	
Other	234	243	189	152	127	
Total recoveries	538	957	1,026	482	341	
Net charge-offs	2,455	4,238	649	424	196	
Provision for loan losses	8,667	7,462	2,826	1,318	629	
Allowance-end of period	\$26,189	\$19,977	\$16,753	\$14,576	\$13,682	
Ratio of annualized net charge-offs to average loans	0.11	% 0.23	% 0.05	% 0.04	% 0.03	%
Ratio of allowance for loan losses to loans outstanding (less unearned interest at end of period)	0.99	% 1.03	% 0.92	% 1.14	% 1.29	%
Ratio of allowance for loan losses to nonperforming loans	88.0	% 114.1	% 92.0	% 363.0	% 301.4	%

The ratio of the allowance for loan losses to nonperforming loans is 88.0% as of December 31, 2018 compared to 114.1% as of December 31, 2017. The decrease in this ratio is primarily due to the increase in loan balances and the increase in non performing loans to \$29.7 million at December 31, 2018 from \$17.5 million at December 31, 2017 including \$.3 million in non-performing loans from Soy Capital Bank and \$6.6 million in non-performing loans acquired from First Bank during the second quarter of 2018. The amounts above do not include loans formerly identified as TDRs by Soy Capital Bank. Management believes that the overall estimate of the allowance for loan losses appropriately accounts for probable losses attributable to current exposures.

During 2018, the Company had net charge-offs of \$2,455,000 compared to \$4,238,000 in 2017. During 2018, there were significant charge offs of commercial real estate loans to one borrower of \$169,000, charge offs of two agricultural loans to one borrower of \$93,000, and charge offs of six commercial operating loans to two borrowers of \$540,000. During 2017, the Company had net charge-offs of \$4,238,000 compared to \$649,000 in 2016. During 2017, there were significant charge offs of commercial real estate loans to three borrowers of \$619,000, charge offs of two agricultural loans to one borrower of \$662,000, and charge offs of twelve commercial operating loans to five borrowers of \$2,689,000.

At December 31, 2018, the allowance for loan losses amounted to \$26.2 million or 0.99% of total loans. At December 31, 2017, the allowance for loan losses amounted to \$20.0 million or 1.03% of total loans. The decrease in this ratio in 2018 is primarily due to an increase in loan balances. The increase in this ratio in 2017 is primarily due to an increase in provision recorded as loans acquired renewed or paid off.

The allowance is allocated to the individual loan categories by a specific allocation for all classified loans plus a percentage of loans not classified based on historical losses and other factors. The allowance for loan losses, in management's judgment, is allocated as follows to cover probable loan losses (dollars in thousands):

	December 31, 2018		December 31, 2017		December 31, 2016	
	Allowance for loan losses	% of total loans	Allowance for loan losses	% of total loans	Allowance for loan losses	% of total loans
Residential real estate	\$ 1,504	14.8 %	\$ 886	16.2 %	\$ 874	20.1 %
Commercial / Commercial real estate	21,556	67.5 %	16,546	70.8 %	12,901	66.0 %
Agricultural / Agricultural real estate	2,197	13.9 %	1,742	11.0 %	2,249	11.6 %
Consumer	932	3.8 %	803	2.0 %	693	2.3 %
Total allocated	26,189	100.0 %	19,977	100.0 %	16,717	100.0 %
Unallocated	—	NA	—	NA	36	NA
Allowance at end of year	\$26,189	100.0 %	\$ 19,977	100.0 %	\$ 16,753	100.0 %

	December 31, 2015		December 31, 2014	
	Allowance for loan losses	% of total loans	Allowance for loan losses	% of total loans
Residential real estate	994	18.1 %	\$ 790	17.4 %
Commercial / Commercial real estate	11,379	63.0 %	10,914	64.4 %
Agricultural / Agricultural real estate	1,337	15.5 %	1,360	16.8 %
Consumer	642	3.4 %	386	1.4 %
Total allocated	14,352	100.0 %	13,450	100.0 %
Unallocated	224	NA	232	N/A
Allowance at end of year	14,576	100.0 %	\$ 13,682	100.0 %

The unallocated allowance represents an estimate of the probable, inherent, but yet undetected, losses in the loan portfolio. It is based on factors that cannot necessarily be associated with a specific credit or loan category and represents management's estimate to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. Fluctuations in the unallocated portion of the allowance result from qualitative factors such as economic conditions, expansionary activities and portfolio composition that influence the level of risk in the portfolio but are not specifically quantified.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for the the years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018		2017		2016			
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate		
Demand deposits:								
Non-interest-bearing	\$ 506,873	— %	\$ 438,575	— %	\$ 372,339	— %		
Interest-bearing	1,194,089	0.28 %	1,119,835	0.16 %	881,994	0.11 %		
Savings	395,028	0.15 %	367,261	0.13 %	340,746	0.13 %		
Time deposits	473,043	0.99 %	348,278	0.49 %	298,124	0.43 %		
Total average deposits	\$ 2,569,033	0.33 %	\$ 2,273,949	0.18 %	\$ 1,893,203	0.14 %		

The following table sets forth the high and low month-end balances for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	2018	2017	2016
High month-end balances of total deposits	\$3,017,035	\$2,331,084	\$2,329,887
Low month-end balances of total deposits	2,208,941	2,217,477	1,699,770

In 2018, the average balance of deposits increased by \$295.1 million from 2017. The increase was primarily the result of deposit balances acquired in the acquisition of First Bank during the second quarter of 2018 and the acquisition of Soy Capital Bank during the fourth quarter of 2018. Average non-interest bearing deposits increased \$68.3 million, other interest-bearing deposits increased by \$74.3 million, savings accounts increased by \$27.8 million, and time deposits increased \$124.8 million. In 2017, the average balance of deposits increased by \$380.7 million from 2016. The increase was primarily attributable the acquisition of First Clover Leaf during the third quarter of 2016 that were included for the full-year in 2017. Average non-interest bearing deposits increased by \$66.2 million, savings accounts increased by \$26.5 million, average balances of other interest-bearing deposits increased \$237.8 million and time deposits increased by \$50.2 million.

Balances of time deposits of \$100,000 or more include time deposits maintained for public fund entities and consumer time deposits. The following table sets forth the maturity of time deposits of \$100,000 or more (in thousands):

	December 31,		
	2018	2017	2016
3 months or less	\$44,898	\$31,467	\$23,796
Over 3 through 6 months	49,476	34,194	20,352
Over 6 through 12 months	78,567	54,607	37,094
Over 12 months	155,071	46,805	70,020
Total	\$328,012	\$167,073	\$151,262

The balance of time deposits of \$100,000 or more increased \$160.9 million from December 31, 2017 to December 31, 2018. The balance of time deposits of \$100,000 or more increased \$15.8 million from December 31, 2016 to December 31, 2017. The increase in 2018 and 2017 was primarily due to the deposits added through acquisitions.

In 2018 the Company maintained account relationships with various public entities throughout its market areas. 83 public entities had total balances of \$94.8 million in various checking accounts and time deposits as of December 31, 2018. These balances are subject to change depending upon the cash flow needs of the public entity.

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank and Soy Capital Bank. These obligations are collateralized with certain government securities that are direct obligations of the United States or one of its agencies. These retail repurchase agreements are a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank (“FHLB”) advances, federal funds purchased, loans (short-term or long-term debt) that the Company has outstanding and junior subordinated debentures. Information relating to securities sold under agreements to repurchase and other borrowings as December 31, 2018, 2017 and 2016 is presented below (in thousands):

	2018	2017	2016
At December 31:			
Securities sold under agreements to repurchase	\$ 192,330	\$ 155,388	\$ 185,763
Federal Home Loan Bank advances:			
Fixed term – due in one year or less	29,000	—	5,000
Fixed term – due after one year	90,745	60,038	35,094
Junior subordinated debentures	29,000	24,000	23,917
Debt due in one year or less	—	—	4,000
Debt due after one year	7,724	10,313	14,063
Total	\$ 348,799	\$ 249,739	\$ 267,837
Average interest rate at end of period	1.30	% 1.00	% 0.52
Maximum outstanding at any month-end:			
Securities sold under agreements to repurchase	\$ 192,330	\$ 163,626	\$ 185,763
Federal funds purchased	22,000	20,000	12,500
Federal Home Loan Bank advances:			
FHLB-overnite	30,000	30,000	10,000
Fixed term – due in one year or less	29,000	5,000	20,000
Fixed term – due after one year	101,745	60,061	35,109
Debt:			
Debt due in one year or less	—	4,000	7,000
Debt due after one year	10,313	14,063	15,000
Junior subordinated debentures	30,221	24,000	23,917
Averages for the period (YTD):			
Securities sold under agreements to repurchase	\$ 140,622	\$ 144,674	\$ 129,734
Federal funds purchased	3,794	3,996	1,795
Federal Home Loan Bank advances:			
FHLB-overnite	9,434	8,598	3,992
Fixed term – due in one year or less	16,510	2,356	10,260
Fixed term – due after one year	71,757	46,452	22,396
Debt:			
Loans due in one year or less	548	658	1,454
Loans due after one year	9,555	12,632	4,749
Junior subordinated debentures	27,391	23,956	21,650
Total	\$ 279,611	\$ 243,322	\$ 196,030
Average interest rate during the period	1.52	% 1.02	% 0.81

Securities sold under agreements to repurchase increased \$36.9 million during 2018 primarily due to balances acquired from Soy Capital Bank, and the seasonal demands in balances and change in cash flow needs of various customers. FHLB advances represent borrowings by the Banks to economically fund loan demand.

At December 31, 2018 the advances totaling \$120.0 million were as follows:

\$4 million advance with a 3-year maturity, at 1.72% due April 12, 2019
 \$15 million advance with a 6-month maturity, at 2.40% due May 13, 2019
 \$5 million advance with a 2-year maturity, at 1.56%, due June 28, 2019
 \$10 million advance with a 11-month maturity at 2.81%, due August 30, 2019
 \$5 million advance with a 15-month maturity, at 2.63%, due September 27, 2019
 \$2 million advance with a 5-year maturity, at 1.89%, due October 17, 2019
 \$10 million advance with a 14-month maturity at 2.88%, due November 29, 2019
 \$5 million advance with a 1.5-year maturity, at 2.67%, due December 27, 2019
 \$4 million advance with a 3-year maturity, at 2.68%, due January 9, 2020
 \$5 million advance with a 2.5-year maturity, at 1.67%, due January 31, 2020
 \$5 million advance with a 4-year maturity, at 1.79%, due April 30, 2020
 \$10 million advance with a 1.5 year maturity at 2.95%, due May 29, 2020
 \$5 million advance with a 2-year maturity, at 2.75%, due June 26, 2020
 \$5 million advance with a 3-year maturity, at 1.75%, due July 31, 2020
 \$5 million advance with a 6-year maturity, at 2.30%, due August 24, 2020
 \$5 million advance with a 3.5-year maturity, at 1.83%, due February 1, 2021
 \$5 million advance with a 5-year maturity, at 1.85%, due April 12, 2021
 \$5 million advance with a 7-year maturity, at 2.55%, due October 1, 2021
 \$5 million advance with a 5-year maturity, at 2.71%, due March 21, 2022
 \$5 million advance with a 8-year maturity, at 2.40%, due January 9, 2023

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of \$10 million. The balance on this line of credit was \$0 as of December 31, 2018. This loan was renewed on April 13, 2018 for one year as a revolving credit agreement with a maximum available balance of \$10 million. The interest rate is floating at 2.25% over the federal funds rate (4.65% and 3.67% at December 31, 2018 and 2017, respectively). The loan is secured by all of the stock of First Mid Bank. The Company and its subsidiary banks were in compliance with the then existing covenants at December 31, 2018 and 2017.

On September 7, 2016, the Company entered into, with The Northern Trust Company, a \$15 million fixed-rate note with a maturity date of September 7, 2020. The interest rate is floating at 2.25% over the federal funds rate (4.65% and 3.67% at December 31, 2018 and 2017, respectively) and interest and principal payments are due quarterly. As of December 31, 2018, the balance due was paid off. The loan is secured by all of the stock of First Mid Bank. The Company used the proceeds of this note to fund the cash portion of the acquisition price of First Clover Leaf Financial.

On February 27, 2004, the Company completed the issuance and sale of \$10 million of floating rate trust preferred securities through First Mid-Illinois Statutory Trust I (“Trust I”), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust I for the purpose of issuing the trust preferred securities. The \$10 million in proceeds from the trust preferred issuance and an additional \$310,000 for the Company’s investment in common equity of Trust I, a total of \$10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust I mature in 2034, bear interest at three-month London Interbank Offered Rate (“LIBOR”) plus 280 basis points (5.19% and 4.21% at December 31, 2018 and 2017, respectively), reset quarterly, and are callable at par, at the option of the Company, quarterly. The Company used the proceeds of the offering for general corporate purposes.

On April 26, 2006, the Company completed the issuance and sale of \$10 million of fixed/floating rate trust preferred securities through First Mid-Illinois Statutory Trust II ("Trust II"), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The \$10 million in proceeds from the trust preferred issuance and an additional \$310,000 for the Company's investment in common equity of Trust II, a total of \$10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bore interest at a fixed rate of 6.98% paid quarterly until June 15, 2011 and then converted to floating rate (LIBOR plus 160 basis points) after June 15, 2011 (4.39% and 3.19% at December 31, 2018 and 2017, respectively). The net proceeds to the Company were used for general corporate purposes, including the Company's acquisition of Mansfield Bancorp, Inc. in 2006.

On September 8, 2016, the Company assumed the trust preferred securities of Clover Leaf Statutory Trust I (“CLST I”), a statutory business trust that was a wholly owned unconsolidated subsidiary of First Clover Financial. The \$4,000,000 of trust preferred securities and an additional \$124,000 additional investment in common equity of CLST I, is invested in junior subordinated debentures issued to CLST I. The subordinated debentures mature in 2025, bear interest at three-month LIBOR plus 185 basis points (4.64% and 3.44% at December 31, 2018 and 2017, respectively) and resets quarterly.

On May 1, 2018, the Company assumed the trust preferred securities of FBTC Statutory Trust I (“FBTCST I”), a statutory business trust that was a wholly owned unconsolidated subsidiary of First BancTrust Corporation. The \$6,000,000 of trust preferred securities and an additional \$186,000 additional investment in common equity of FBTCST I is invested in junior subordinated debentures issued to FBTCST I. The subordinated debentures mature in 2035, bear interest at three-month LIBOR plus 170 basis points (4.49% and 3.29% at December 31, 2018 and 2017, respectively) and resets quarterly.

The trust preferred securities issued by Trust I, Trust II, CLST I, and FBTCST I are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending September 30, 2010, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until March 31, 2012. The application of the revised quantitative limits did not and is not expected to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The Dodd-Frank Act, signed into law July 21, 2010, removes trust preferred securities as a permitted component of a holding company’s Tier 1 capital after a three-year phase-in period beginning January 1, 2013 for larger holding companies. For holding companies with less than \$15 billion in consolidated assets, existing issues of trust preferred securities are grandfathered and not subject to this new restriction. New issuances of trust preferred securities, however would not count as Tier 1 regulatory capital.

In addition to requirements of the Dodd-Frank Act discussed above, the act also required the federal banking agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This rule is generally referred to as the “Volcker Rule.” On December 10, 2013, the federal banking agencies issued final rules to implement the prohibitions required by the Volcker Rule. Following the publication of the final rule, and in reaction to concerns in the banking industry regarding the adverse impact the final rule’s treatment of certain collateralized debt instruments has on community banks, the federal banking agencies approved a final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities. Under the final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities under \$15 billion in assets if (1) the collateralized debt obligation was established and issued prior to May 19, 2010, (2) the banking entity reasonably believes that the offering proceeds received by the collateralized debt obligation were invested primarily in qualifying trust preferred collateral, and (3) the banking entity’s interests in the collateralized debt obligation was acquired on or prior to December 10, 2013. Although the Volcker Rule impacts many large banking entities, the Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company or First Mid Bank.

Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to

changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of interest-bearing assets differ significantly from the maturity or repricing characteristics of interest-bearing liabilities. The Company monitors its interest rate sensitivity position to maintain a balance between rate sensitive assets and rate sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet.

The following table sets forth the Company's interest rate repricing GAP for selected maturity periods at December 31, 2018 (dollars in thousands):

	Rate Sensitive Within						Total	Fair Value
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter		
Interest-earning assets:								
Federal funds sold and other interest-bearing deposits	\$77,807	\$—	\$—	\$—	\$—	\$—	\$77,807	\$77,807
Certificates of deposit investments	2,944	2,665	490	1,225	245	—	7,569	7,569
Taxable investment securities	364	13,079	47,665	49,527	74,691	383,805	569,131	567,090
Nontaxable investment securities	—	5,298	7,250	8,675	4,491	166,865	192,579	192,579
Loans	1,024,723	355,089	495,869	332,838	308,591	127,409	2,644,519	2,541,037
Total	\$1,105,838	\$376,131	\$551,274	\$392,265	\$388,018	\$678,079	\$3,491,605	\$3,386,082
Interest-bearing liabilities:								
Savings and NOW accounts	\$334,175	\$115,008	\$115,008	\$115,008	\$115,008	\$541,538	\$1,335,745	\$1,335,745
Money market accounts	361,467	19,561	19,561	19,561	19,561	45,677	485,388	485,388
Other time deposits	325,158	183,713	47,583	21,033	13,506	776	591,769	594,260
Short-term borrowings/debt	192,330	—	—	—	—	—	192,330	192,179
Long-term borrowings/debt	92,493	38,976	15,000	5,000	5,000	—	156,469	151,846
Total	\$1,305,623	\$357,258	\$197,152	\$160,602	\$153,075	\$587,991	\$2,761,701	\$2,759,418
Rate sensitive assets – rate sensitive liabilities	\$(199,785)	\$18,873	\$354,122	\$231,663	\$234,943	\$90,088	\$729,904	
Cumulative GAP	\$(199,785)	\$(180,912)	\$173,210	\$404,873	\$639,816	\$729,904		
Cumulative amounts as % of total Rate sensitive assets	-5.7	%0.5	%10.1	%6.6	%6.7	%2.6	%	
Cumulative Ratio	-5.7	%-5.2	%5.0	%11.6	%18.3	%20.9	%	

The static GAP analysis shows that at December 31, 2018, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates could have an adverse effect on net interest income. There are several ways the Company measures and manages the exposure to interest rate sensitivity, including static GAP analysis. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities.

Capital Resources

At December 31, 2018, the Company's stockholders' equity had increased \$167.9 million, or 54.5%, to \$475,864,000 from \$307,964,000 as of December 31, 2017. During 2018, net income contributed \$36,600,000 to equity before the payment of dividends to stockholders. The change in market value of available-for-sale investment securities decreased stockholders' equity by \$4,169,000, net of tax. Shares issued in the capital raise increased stockholders' equity by \$34 million and shares issued in acquisitions added \$109.3 to stockholders' equity.

During 2011 and 2012, the Company sold to certain accredited investors including directors, executive officers, and certain major customers and holders of the Company's common stock, \$27,500,000, in the aggregate, of a newly authorized series of its preferred stock designated as Series C Preferred Stock. During 2016, the Company converted the Series C Preferred Stock to approximately 1,355,319 shares of common stock in accordance with the terms of the offering.

Stock Plans

Deferred Compensation Plan. The Company follows the provisions of the Emerging Issues Task Force Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested" ("EITF 97-14"), which was codified into ASC 710-10, for purposes of the First Mid-Illinois Bancshares, Inc. Deferred Compensation Plan ("DCP"). At December 31, 2018, the Company classified the cost basis of its

common stock issued and held in trust in connection with the DCP of approximately \$3,548,000 as treasury stock. The Company also classified the cost basis of its related deferred compensation obligation of approximately \$3,548,000 as an equity instrument (deferred compensation).

The DCP was effective as of June 1984. The purpose of the DCP is to enable directors, advisory directors, and key employees the opportunity to defer a portion of the fees and cash compensation paid by the Company as a means of maximizing the effectiveness and flexibility of compensation arrangements. The Company invests all participants' deferrals in shares of common stock. Dividends paid on the shares are credited to participants' DCP accounts and invested in additional shares. The Company issued, pursuant to DCP:

9,043 common shares during 2018
6,875 common shares during 2017, and
4,683 common shares during 2016

First Retirement and Savings Plan. The First Retirement and Savings Plan ("401(k) plan") was effective beginning in 1985. Employees are eligible to participate in the 401(k) plan after three months of service with the Company. The Company offers common stock as an investment option for participants of the 401(k) plan. Beginning in 2016, shares for the 401(k) plan were purchased in the open market instead of being issued by the Company. The Company issued, pursuant to the 401(k) plan:

0 common shares during 2018
0 common shares during 2017, and
558 common shares during 2016

Dividend Reinvestment Plan. The Dividend Reinvestment Plan ("DRIP") was effective as of October 1994. The purpose of the DRIP is to provide participating stockholders with a simple and convenient method of investing cash dividends paid by the Company on its common and preferred shares into newly issued common shares of the Company. All holders of record of the Company's common or preferred stock are eligible to voluntarily participate in the DRIP. The DRIP is administered by Computershare Investor Services, LLC and offers a way to increase one's investment in the Company. Of the \$9,891,000 in common stock dividends paid during 2018, \$1,099,000 or 11.1% was reinvested into shares of common stock of the Company through the DRIP. Events that resulted in common shares being reinvested in the DRIP:

During 2018, 30,655 common shares were issued from common stock dividends.

During 2017, 30,059 common shares were issued from common stock dividends.

During 2016, 46,894 common shares were issued from common stock dividends and 3,552 common shares were issued from preferred stock dividends.

Stock Incentive Plan. At the Annual Meeting of Stockholders held April 26, 2017, the stockholders approved the 2017 Stock Incentive Plan ("SI Plan"). The SI Plan was implemented to succeed the Company's 2007 Stock Incentive Plan, which had a ten-year term. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its Subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its Subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of Common Stock of the Company on the terms and conditions established in the SI Plan.

A maximum of 149,983 shares of common stock may be issued under the SI Plan. During 2018, 2017, and 2016 (under the 2007 Stock Incentive Plan), the Company awarded 28,700 and 18,391, and 13,912 shares as stock and stock unit awards, respectively. This SI Plan is more fully described in Note 13 - Stock Incentive Plan.

Stock Repurchase Program. Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately \$76.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

- On August 5, 1998, repurchases of up to 3%, or \$2 million, of the Company's common stock.
- In March 2000, repurchases up to an additional 5%, or \$4.2 million of the Company's common stock.
- In September 2001, repurchases of \$3 million of additional shares of the Company's common stock.
- In August 2002, repurchases of \$5 million of additional shares of the Company's common stock.
- In September 2003, repurchases of \$10 million of additional shares of the Company's common stock.

- On April 27, 2004, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of \$5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of \$5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of \$2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of \$5 million of additional shares of the Company's common stock.
- On February 22, 2011, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 13, 2012, repurchases of \$5 million of additional shares of the Company's common stock.
- On November 19, 2013, repurchases of \$5 million additional shares of the Company's common stock.
- On October 24, 2014, repurchases of \$5 million additional shares of the Company's common stock.

During 2018, the Company repurchased \$3,900 (0.02% of common shares) at a total price of approximately \$138,000. All of these shares were a result of shares withheld for taxes on vested employee stock incentives. During 2017, the Company repurchased \$20,734 (0.16% of common shares) at a total price of approximately \$797,000. As of December 31, 2018, approximately \$6.2 million remains available for purchase under the repurchase programs. Treasury stock is further affected by activity in the DCP.

Capital Ratios

For 2018, the minimum regulatory requirements are 9.875% for the Total Risk-based capital ratio, 7.875% for the Tier 1 Risk-based capital ratio, 6.375% for the Common Equity Tier 1 capital ratio, and 4% for the Tier 1 Leverage ratio. The Company, First Mid Bank, and Soy Capital Bank have capital ratios above the minimum regulatory capital requirements and, as of December 31, 2018, the Company, First Mid Bank, and Soy Capital Bank had capital ratios above the levels required for categorization as well-capitalized under the capital adequacy guidelines established by the bank regulatory agencies. A tabulation of the Company, First Mid Bank, and Soy Capital Bank's capital ratios as of December 31, 2018 follows:

	Total Risk-based Capital Ratio		Tier One Risk-based Capital Ratio		Common Equity Tier 1 Capital Ratio		Tier One Leverage Ratio (Capital to Average Assets)
First Mid-Illinois Bancshares, Inc. (Consolidated)	13.63	%	12.76	%	11.81	%	11.15 %
First Mid Bank	12.85	%	11.89	%	11.89	%	9.92 %
Soy Capital Bank	14.33	%	14.33	%	14.33	%	11.12 %

Liquidity

Liquidity represents the ability of the Company and its subsidiaries to meet all present and future financial obligations arising in the daily operations of the business. Financial obligations consist of the need for funds to meet extensions of credit, deposit withdrawals and debt servicing. The Company's liquidity management focuses on the ability to obtain funds economically through assets that may be converted into cash at minimal costs or through other sources. The Company's other sources of cash include overnight federal fund lines, Federal Home Loan Bank advances, the ability to borrow at the Federal Reserve Bank of Chicago, and the Company's operating line of credit with The Northern Trust Company. Details for these sources include:

First Mid Bank has \$65 million available in overnight federal fund lines, including \$30 million from First Tennessee Bank, N.A., \$10 million from U.S. Bank, N.A., \$10 million from Wells Fargo Bank, N.A. and \$15 million from The Northern Trust Company. Availability of the funds is subject to First Mid Bank meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total average assets. As of December 31, 2018, First Mid Bank met these regulatory requirements.

First Mid Bank can borrow from the Federal Home Loan Bank as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the Federal Home Loan Bank. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At December 31, 2018, the excess collateral at the FHLB would support approximately \$454.4 million of additional advances for First Mid Bank.

First Mid Bank is a member of the Federal Reserve System and can borrow funds provided that sufficient collateral is pledged.

In addition, as of December 31, 2018, the Company had a revolving credit agreement in the amount of \$10 million with The Northern Trust Company with an outstanding balance of \$0 million and \$10 million in available funds. This loan was renewed on April 13, 2018 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The loan is secured by all of the stock of First Mid Bank, and includes requirements

for operating and capital ratios. The Company and its subsidiary banks were in compliance with the existing covenants at December 31, 2018 and 2017.

Management continues to monitor its expected liquidity requirements carefully, focusing primarily on cash flows from:

- ending activities, including loan commitments, letters of credit and mortgage prepayment assumptions;
- deposit activities, including seasonal demand of private and public funds;
- investing activities, including prepayments of mortgage-backed securities and call provisions on U.S. Treasury and government agency securities; and
- operating activities, including scheduled debt repayments and dividends to stockholders.

The following table summarizes significant contractual obligations and other commitments at December 31, 2018 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	\$591,769	\$325,158	\$231,296	\$34,539	\$776
Debt	30,930	—	—	—	30,930
Other borrowings	245,123	181,123	54,000	10,000	—
Operating leases	40,771	2,880	216	4,420	33,255
Supplemental retirement	533	100	97	100	236
	\$909,126	\$509,261	\$285,609	\$49,059	\$65,197

For the year ended December 31, 2018, net cash of \$42.2 million was provided from operating activities, \$11.0 million was used in investing activities, and \$21.3 million was provided from financing activities. In total cash and cash equivalents increased by \$52.5 million from year-end 2017.

For the year ended December 31, 2017, net cash of \$46.2 million was provided from operating activities, \$56.0 million was used in investing activities, and \$77.2 million was used in financing activities. In total cash and cash equivalents increased by \$87.0 million from year-end 2016.

For the year ended December 31, 2016, net cash of \$27.4 million was provided from operating activities, \$78.1 million was used in investing activities, and \$110.8 million was provided from financing activities. In total cash and cash equivalents decreased by \$60.1 million from year-end 2015.

For the years ended December 31, 2018 and 2017, the Company also had \$10 million of floating rate trust preferred securities outstanding through each of Trust I and Trust II, and in September 2016, the Company acquired \$4 million of floating rate trust preferred securities from First Clover Leaf under Clover Leaf Statutory Trust I and on May 1, 2018, the Company acquired \$6.1 million of floating rate trust preferred securities from First BancTrust Corporation. See Note 9 – “Borrowings” for a more detailed description.

Effects of Inflation

Unlike industrial companies, virtually all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company’s performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or experience the same magnitude of changes as goods and services, since such prices are affected by inflation. In the current economic environment, liquidity and interest rate adjustments are features of the Company’s assets and liabilities that are important to the maintenance of acceptable performance levels. The Company attempts to maintain a balance between monetary assets and monetary liabilities, over time, to offset these potential effects.

QUANTITATIVE
AND
ITEM 7A. QUALITATIVE
DISCLOSURES
ABOUT
MARKET RISK

The Company's market risk arises primarily from interest rate risk inherent in its lending, investing and deposit taking activities, which are restricted to First Mid Bank and Soy Capital Bank. The Company does not currently use derivatives to manage market or interest rate risks. For a discussion of how management of the Company addresses and evaluates interest rate risk see also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity."

Based on the financial analysis performed as of December 31, 2018, which takes into account how the specific interest rate scenario would be expected to impact each interest-earning asset and each interest-bearing liability, the Company estimates that changes in the prime interest rate would impact the First Mid Bank's and Soy Capital Bank's performance, on a consolidated basis, as follows:

December 31, 2018	Increase (Decrease) In		Return On Average Equity
	Net Interest Income	(%)	
Prime rate is 5.50%	(\$000)	(%)	2018=9.59%
Prime rate increase of:			
200 basis points to 7.50%	\$(4,007)	(3.9)%	(0.96)%
100 basis points to 6.50%	(1,850)	(1.8)%	(0.44)%
Prime rate decrease of:			
100 basis points to 4.50%	(4,285)	(4.2)%	(1.03)%
200 basis points to 3.50%	(11,285)	(11.1)%	(2.75)%

The following table shows the same analysis for First Mid Bank performed as of December 31, 2017:

December 31, 2017	Increase (Decrease) In		Return On Average Equity
	Net Interest Income	(%)	
Prime rate is 4.50%	(\$000)	(%)	2017=8.92%
Prime rate increase of:			
200 basis points to 6.50%	\$(1,912)	(3.1)%	(0.59)%
100 basis points to 5.50%	(837)	(1.4)%	(0.26)%
Prime rate decrease of:			
100 basis points to 3.50%	(4,465)	(7.2)%	(1.38)%
200 basis points to 2.50%	(8,899)	(14.4)%	(2.79)%

The Company's Board of Directors has adopted an interest rate risk policy that establishes maximum decreases in the percentage change in net interest income of 5% in a 100 basis point rate shift and 10% in a 200 basis point rate shift. No assurance can be given that the actual net interest income would increase or decrease by such amounts in response to a 100 or 200 basis point increase or decrease in the prime rate because it is also affected by many other factors. The

results above are based on one-time “shock” moves and ramped rate increases and do not take into account any management response or mitigating action.

Interest rate sensitivity analysis is also used to measure the Company's interest risk by computing estimated changes in the Economic Value of Equity ("EVE") of the First Mid Bank and Soy Capital Bank under various interest rate shocks. EVE is determined by calculating the net present value of each asset and liability category by rate shock. The net differential between assets and liabilities is the EVE. EVE is an expression of the long-term interest rate risk in the balance sheet as a whole.

The following table presents the Company's projected change in EVE, on a consolidated basis, for the various rate shock levels at December 31, 2018 and 2017 (in thousands). All market risk sensitive instruments presented in the tables are held-to-maturity or available-for-sale. The Banks have no trading securities.

	Changes In Interest Rates (basis points)	Economic Value of Equity	
		Amount of Change (\$000)	Percent of Change
December 31, 2018	+200 bp	\$(36,159)	(5.6)%
	+100 bp	(16,479)	(2.5)%
	-200 bp	(63,947)	(9.9)%
	-100 bp	(19,944)	(3.1)%
December 31, 2017	+200 bp	(27,611)	(5.8)%
	+100 bp	(11,926)	(2.5)%
	-200 bp	(74,933)	(15.6)%
	-100 bp	(28,272)	(5.9)%

As indicated above, at December 31, 2018, in the event of a sudden and sustained increase in prevailing market interest rates, the EVE would be expected to decrease if rates increased 100 or 200 basis points. In the event of a sudden and sustained decrease in prevailing market interest rates, The Company's EVE would be expected to decrease. At December 31, 2018, the estimated changes in EVE were within the Company's policy guidelines that normally allow for a change in capital of +/-10% from the base case scenario under a 100 basis point shock and +/-20% from the base case scenario under a 200 basis point shock. The general level of interest rates are at historically low levels and the bank is monitoring its position and the likelihood of further rate decreases.

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and declines in deposit balances, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of EVE. Actual values may differ from those projections set forth in the table, should market conditions vary from assumptions used in the preparation of the table. Certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the proportion of adjustable-rate loans in First Mid Bank's and Soy Capital Bank's portfolio change in future periods as market rates change. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the table. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the event of an interest rate increase.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands, except share data)

	2018	2017
Assets		
Cash and due from banks:		
Non-interest bearing	\$63,593	\$75,398
Interest bearing	77,142	12,990
Federal funds sold	665	491
Cash and cash equivalents	141,400	88,879
Certificates of deposit investments	7,569	1,685
Investment securities:		
Available-for-sale, at fair value	692,274	578,579
Held-to-maturity, at amortized cost (estimated fair value of \$67,909 and \$68,457 at December 31, 2018 and 2017, respectively)	69,436	69,332
Loans held for sale	1,508	1,025
Loans	2,643,011	1,938,476
Less allowance for loan losses	(26,189)	(19,977)
Net loans	2,616,822	1,918,499
Interest receivable	16,881	10,832
Other real estate owned	2,534	2,754
Premises and equipment, net	59,117	38,266
Goodwill, net	105,277	60,150
Intangible assets, net	33,820	10,679
Bank owned life insurance	65,484	41,883
Other assets	27,612	18,976
Total assets	\$3,839,734	\$2,841,539
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	\$575,784	\$480,283
Interest bearing	2,412,902	1,794,356
Total deposits	2,988,686	2,274,639
Repurchase agreements with customers	192,330	155,388
Interest payable	1,758	602
FHLB borrowings	119,745	60,038
Other borrowings	7,724	10,313
Junior subordinated debentures	29,000	24,000
Other liabilities	24,627	8,595
Total liabilities	3,363,870	2,533,575
Stockholders' Equity:		
Common stock, \$4 par value; authorized 30,000,000 shares; issued 17,219,012 shares in 2018 and 13,231,225 shares in 2017	70,876	54,925
Additional paid-in capital	293,937	163,603
Retained earnings	131,392	104,683
Deferred compensation	2,761	3,540
Accumulated other comprehensive loss	(6,473)	(2,304)
Less treasury stock at cost, 574,377 shares in 2018 and 570,477 shares in 2017	(16,629)	(16,483)
Total stockholders' equity	475,864	307,964
Total liabilities and stockholders' equity	\$3,839,734	\$2,841,539

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

For the years ended December 31, 2018, 2017 and 2016

(In thousands, except per share data)

	2018	2017	2016
Interest income:			
Interest and fees on loans	\$105,772	\$82,670	\$61,952
Interest on investment securities			
Taxable	13,070	11,708	9,288
Exempt from federal income tax	5,167	4,774	3,726
Interest on certificates of deposit investments	66	50	295
Interest on federal funds sold	8	62	40
Interest on deposits with other financial institutions	482	291	195
Total interest income	124,565	99,555	75,496
Interest expense:			
Interest on deposits	8,571	3,995	2,713
Interest on securities sold under agreements to repurchase	330	181	96
Interest on FHLB borrowings	2,071	883	630
Interest on other borrowings	446	496	181
Interest on subordinated debentures	1,409	927	672
Total interest expense	12,827	6,482	4,292
Net interest income	111,738	93,073	71,204
Provision for loan losses	8,667	7,462	2,826
Net interest income after provision for loan losses	103,071	85,611	68,378
Other income:			
Trust revenues	5,786	3,744	3,517
Brokerage commissions	2,674	2,161	1,908
Insurance commissions	5,592	3,872	3,452
Service charges	7,435	6,920	6,791
Securities gains, net	901	616	1,192
Mortgage banking revenue, net	1,205	1,184	1,172
ATM / debit card revenue	7,487	6,495	6,004
Bank owned life insurance	1,389	1,638	671
Other income	2,945	3,706	2,205
Total other income	35,414	30,336	26,912
Other expense:			
Salaries and employee benefits	46,803	39,756	32,354
Net occupancy and equipment expense	14,533	12,596	11,418
Net other real estate owned expense	282	560	60
FDIC insurance expense	1,059	905	966
Amortization of intangible assets	3,215	2,153	1,909
Stationery and supplies	963	724	815
Legal and professional	5,243	3,887	3,035
Marketing and donations	1,794	1,356	1,845
ATM / debit card expense	2,971	2,393	1,994
Other expense	13,117	9,891	7,114
Total other expense	89,980	74,221	61,510
Income before income taxes	48,505	41,726	33,780
Income taxes	11,905	15,042	11,940
Net income	36,600	26,684	21,840
Dividends on preferred shares	—	—	825

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Net income available to common stockholders	\$36,600	\$26,684	\$21,015
Per share data:			
Basic net income per common share available to common stockholders	\$2.53	\$2.13	\$2.07
Diluted net income per common share available to common stockholders	2.52	2.13	2.05
Cash dividends declared per common share	0.70	0.66	0.62

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016

(in thousands)

	2018	2017	2016
Net income	\$36,600	\$26,684	\$21,840
Other Comprehensive Income (Loss)			
Unrealized gains (losses) on available-for-sale securities, net of taxes of \$1,475, \$(2,855), and \$3,848 for the years ended December 31, 2018, 2017 and 2016, respectively	(3,611)	3,845	(6,025)
Unamortized holding gains on held to maturity securities transferred from available for sale, net of taxes of \$(33), \$(32), and \$(172) for December 31, 2018, 2017 and 2016, respectively	82	80	268
Less: reclassification adjustment for realized gains included in net income net of taxes of \$261, \$216, and \$465 for the years ended December 31, 2018, 2017 and 2016, respectively	(640)	(400)	(727)
Other comprehensive income (loss), net of taxes	(4,169)	3,525	(6,484)
Comprehensive income	\$32,431	\$30,209	\$15,356

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in
Stockholders' Equity
For the years ended December 31, 2018, 2017
and 2016
(In thousands, except share and per
share data)

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2017	\$ 54,925	\$ 163,603	\$ 104,683	\$ 3,540	\$ (2,304)	\$(16,483)	\$307,964
Net income	—	—	36,600	—	—	—	36,600
Other comprehensive loss, net of tax	—	—	—	—	(4,169)	—	(4,169)
Dividends on common stock (\$.70 per sh)	—	—	(9,891)	—	—	—	(9,891)
Issuance of 1,643,900 common shares pursuant to acquisition of First Banctrust Corporation, net proceeds	6,576	54,646	—	—	—	—	61,222
Issuance of 1,330,571 common shares pursuant to acquisition of SCB Bancorp, net proceeds	5,322	42,770	—	—	—	—	48,092
Issuance of 947,368 common shares pursuant to capital raise	3,789	30,197	—	—	—	—	33,986
Issuance of 30,655 common shares pursuant to the Dividend Reinvestment Plan	123	976	—	—	—	—	1,099
Issuance of 9,043 common shares pursuant to the Deferred Compensation Plan	36	309	—	—	—	—	345
Issuance of 13,250 restricted common shares pursuant to the 2017 Stock Incentive Plan	53	463	—	—	—	—	516
Issuance of 10,500 common shares pursuant to the exercise of stock options	52	247	—	—	—	—	299
Purchase of 3,900 treasury shares	—	—	—	—	—	(138)	(138)
Deferred compensation	—	—	—	8	—	(8)	—
Tax benefit related to deferred compensation distributions	—	160	—	—	—	—	160
Grant of restricted stock units pursuant to the 2017 Stock Incentive Plan	—	566	—	—	—	—	566
Vested restricted shares/units compensation expense	—	—	—	(787)	—	—	(787)
December 31, 2018	\$ 70,876	\$ 293,937	\$ 131,392	\$ 2,761	\$ (6,473)	\$(16,629)	\$475,864

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in
 Stockholders' Equity
 For the years ended December 31, 2018,
 2017 and 2016
 (In thousands, except share and per
 share data)

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2016	\$ 54,083	\$ 158,671	\$ 86,216	\$ 3,201	\$ (5,761)	\$(15,737)	\$280,673
Net income	—	—	26,684	—	—	—	26,684
Other comprehensive income, net of tax	—	—	—	—	3,525	—	3,525
Dividends on common stock (\$.66 per sh)	—	—	(8,285)	—	—	—	(8,285)
Reclass of stranded AOCI due to tax reform	—	—	68	—	(68)	—	—
Issuance of 30,059 common shares pursuant to the Dividend Reinvestment Plan	120	937	—	—	—	—	1,057
Issuance of 6,875 common shares pursuant to the Deferred Compensation Plan	28	204	—	—	—	—	232
Issuance of 47,339 restricted common shares pursuant to the 2007 and 2017 Stock Incentive Plan	189	1,615	—	—	—	—	1,804
Issuance of 98,710 common shares pursuant to At-The-Market program, less issuance costs	395	2,856	—	—	—	—	3,251
Purchase of treasury shares	—	—	—	—	—	(797)	(797)
Deferred compensation	—	—	—	(51)	—	51	—
Tax benefit related to deferred compensation distributions	—	216	—	—	—	—	216
Grant of restricted stock units pursuant to the 2017 Stock Incentive Plan	—	359	—	—	—	—	359
Issuance of 27,500 common shares pursuant to the exercise of stock options	110	589	—	—	—	—	699
Release of restricted stock units pursuant to 2017 SIP	—	(1,849)	—	—	—	—	(1,849)
Disqualified disposition of incentive stock option	—	5	—	—	—	—	5
Vested restricted shares/units compensation expense	—	—	—	390	—	—	390
December 31, 2017	\$ 54,925	\$ 163,603	\$ 104,683	\$ 3,540	\$ (2,304)	\$(16,483)	\$307,964

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in
 Stockholders' Equity
 For the years ended December 31, 2018, 2017
 and 2016
 (In thousands, except share and per
 share data)

	Preferred Stock	Common Stock	Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
December 31, 2015	\$27,400	\$38,015	\$ 79,626	\$71,712	\$ 3,245	\$ 723	\$(15,712)	\$205,009
Net income	—	—	—	21,840	—	—	—	21,840
Other comprehensive loss, net of tax	—	—	—	—	—	(6,484)	—	(6,484)
Dividends on preferred stock (\$150 per sh)	—	—	—	(825)	—	—	—	(825)
Dividends on common stock (\$.62 per sh)	—	—	—	(6,511)	—	—	—	(6,511)
Issuance of 2,500 common shares pursuant to the exercise of stock options	—	10	52	—	—	—	—	62
Issuance of 1,355,319 common shares pursuant to conversion of 5,500 shares of Series C preferred stock	(27,400)	5,421	21,979	—	—	—	—	—
Issuance of 50,446 common shares pursuant to the Dividend Reinvestment Plan	—	202	1,121	—	—	—	—	1,323
Issuance of 4,683 common shares pursuant to the Deferred Compensation Plan	—	19	100	—	—	—	—	119
Issuance of 558 common shares pursuant to the First Retirement & Savings Plan	—	2	12	—	—	—	—	14
Issuance of 2,910 restricted common shares pursuant to the 2007 Stock Incentive Plan	—	12	68	—	—	—	—	80
Issuance of 2,600,616 common shares pursuant to acquisition of First Clover Leaf Financial, net proceeds	—	10,402	55,295	—	—	—	—	65,697
Deferred compensation Tax benefit related to deferred compensation distributions	—	—	140	—	25	—	(25)	—
	—	—	278	—	—	—	—	278

Grant of restricted stock units
pursuant to the 2007 Stock
Incentive Plan

Vested restricted shares/units	—	—	—	—	(69)	—	—	(69)
compensation expense										
December 31, 2016	\$—	\$54,083	\$ 158,671	\$86,216	\$ 3,201	\$ (5,761)	\$(15,737)	\$280,673	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016

(In thousands)

Cash flows from operating activities:

	2018	2017	2016
Net income	\$36,600	\$26,684	\$21,840
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	8,667	7,462	2,826
Depreciation, amortization and accretion, net	7,881	8,134	7,936
Change in cash surrender value of bank owned life insurance	(1,337)	(1,126)	(671)
Gain on bank owned life insurance	—	(511)	—
Stock-based compensation expense	294		