FIRST BUSEY CORP /NV/
Form 10-Q
August 08, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 6/30/2017

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

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

N/A

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

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

Class	**Outstanding at August 8, 2017**
Common Stock, $.001 par value	45,449,258

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and December 31, 2016

(Unaudited)

	June 30, 2017		December 31, 2016	
	(dollars in thousands)			
Assets				
Cash and cash equivalents (interest-bearing 2017 $208,591; 2016 $75,006)	$	294,100	$	166,706
Securities available for sale, at fair value		646,349		759,811
Securities held to maturity, at amortized cost		208,634		47,820
Loans held for sale		168,415		256,319
Portfolio loans (net of allowance for loan losses 2017 $49,201; 2016 $47,795)		3,871,263		3,831,105
Premises and equipment, net		79,498		77,861
Goodwill		102,814		102,814
Other intangible assets, net		16,073		18,462
Cash surrender value of bank owned life insurance		80,608		79,720
Deferred tax asset, net		18,014		20,224
Other assets		45,599		64,328
Total assets	$	5,531,367	$	5,425,170
Liabilities and Stockholders Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	1,105,041	$	1,134,133
Interest-bearing		3,289,171		3,240,165
Total deposits	$	4,394,212	$	4,374,298
Securities sold under agreements to repurchase		178,597		189,157
Short-term borrowings		50,000		75,000
Long-term debt		80,000		80,000
Senior notes, net of unamortized issuance costs		39,351		
Subordinated notes, net of unamortized issuance costs		59,022		
Junior subordinated debt owed to unconsolidated trusts		70,938		70,868
Other liabilities		46,132		41,533
Total liabilities	$	4,918,252	$	4,830,856
Commitments and contingencies (See Note 14: Outstanding Commitments and Contingent Liabilities)				
Stockholders Equity				
Common stock, $.001 par value, authorized 66,666,667 shares; shares issued 2017 and 2016 38,869,519		39		39
Additional paid-in capital		780,916		781,716
Accumulated deficit		(145,996)		(163,689)
Accumulated other comprehensive income		305		36
Total stockholders equity before treasury stock	$	635,264	$	618,102
Common stock shares held in treasury at cost, 2017 621,041; 2016 633,232		(22,149)		(23,788)
Total stockholders equity	$	613,115	$	594,314
Total liabilities and stockholders equity	$	5,531,367	$	5,425,170
Common shares outstanding at period end		38,248,478		38,236,287

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

		2017		2016
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	81,833	$	61,331
Interest and dividends on investment securities:				
Taxable interest income		7,650		7,187
Non-taxable interest income		1,453		1,544
Total interest income	$	90,936	$	70,062
Interest expense:				
Deposits	$	4,207	$	2,899
Federal funds purchased and securities sold under agreements to repurchase		327		172
Short-term borrowings		74		198
Long-term debt		280		100
Senior notes		162		
Subordinated notes		299		
Junior subordinated debt owed to unconsolidated trusts		1,208		799
Total interest expense	$	6,557	$	4,168
Net interest income	$	84,379	$	65,894
Provision for loan losses		1,000		2,100
Net interest income after provision for loan losses	$	83,379	$	63,794
Non-interest income:				
Trust fees	$	12,017	$	10,592
Commissions and brokers fees, net		1,473		1,355
Remittance processing		5,704		5,755
Fees for customer services		12,081		10,579
Mortgage revenue		4,904		4,249
Security gains, net		853		1,219
Other		3,044		1,674
Total non-interest income	$	40,076	$	35,423
Non-interest expense:				
Salaries, wages and employee benefits	$	41,951	$	33,859
Net occupancy expense of premises		6,311		4,899
Furniture and equipment expenses		3,338		2,728
Data processing		7,537		8,247
Amortization of intangible assets		2,389		1,875
Regulatory expense		1,025		1,472
Other		11,836		10,956
Total non-interest expense	$	74,387	$	64,036
Income before income taxes	$	49,068	$	35,181
Income taxes		17,419		12,364
Net income	$	31,649	$	22,817
Basic earnings per common share	$	0.83	$	0.72
Diluted earnings per common share	$	0.82	$	0.71
Dividends declared per share of common stock	$	0.36	$	0.34

See accompanying notes to unaudited Consolidated Financial Statements.

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30, 2017 and 2016

(Unaudited)

		2017		2016
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	41,236	$	36,187
Interest and dividends on investment securities:				
Taxable interest income		4,047		3,576
Non-taxable interest income		726		775
Total interest income	$	46,009	$	40,538
Interest expense:				
Deposits	$	2,163	$	1,792
Federal funds purchased and securities sold under agreements to repurchase		204		90
Short-term borrowings		27		185
Long-term debt		167		57
Senior notes		162		
Subordinated notes		299		
Junior subordinated debt owed to unconsolidated trusts		621		462
Total interest expense	$	3,643	$	2,586
Net interest income	$	42,366	$	37,952
Provision for loan losses		500		1,100
Net interest income after provision for loan losses	$	41,866	$	36,852
Non-interest income:				
Trust fees	$	5,827	$	5,045
Commissions and brokers fees, net		751		687
Remittance processing		2,859		2,830
Fees for customer services		6,095		5,873
Mortgage revenue		2,770		3,369
Security (losses) gains, net		(4)		152
Other		1,764		621
Total non-interest income	$	20,062	$	18,577
Non-interest expense:				
Salaries, wages and employee benefits	$	20,061	$	18,493
Net occupancy expense of premises		3,126		2,732
Furniture and equipment expenses		1,719		1,644
Data processing		3,939		5,015
Amortization of intangible assets		1,182		1,109
Regulatory expense		433		884
Other		6,308		6,471
Total non-interest expense	$	36,768	$	36,348
Income before income taxes	$	25,160	$	19,081
Income taxes		8,681		6,698
Net income	$	16,479	$	12,383
Basic earnings per common share	$	0.43	$	0.35
Diluted earnings per common share	$	0.43	$	0.35
Dividends declared per share of common stock	$	0.18	$	0.17

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
	(dollars in thousands)			
Net income	$ 16,479	$ 12,383	$ 31,649	$ 22,817
Other comprehensive income, before tax:				
Securities available for sale:				
Unrealized net gains (losses) on securities:				
Unrealized net holding gains arising during period	$ 728	$ 2,900	$ 1,301	$ 10,599
Reclassification adjustment for losses (gains) included in net income	4	(152)	(853)	(1,219)
Other comprehensive income, before tax	$ 732	$ 2,748	$ 448	$ 9,380
Income tax expense related to items of other comprehensive income	292	1,094	179	3,749
Other comprehensive income, net of tax	$ 440	$ 1,654	$ 269	$ 5,631
Comprehensive income	$ 16,919	$ 14,037	$ 31,918	$ 28,448

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance, December 31, 2015	$ 29	$ 591,053	$ (190,265)	$ 2,340	$ (29,971)	$ 373,186
Net income			22,817			22,817
Other comprehensive income				5,631		5,631
Stock issued in acquisition of Pulaski, net of stock issuance costs	10	195,188				195,198
Issuance of treasury stock for employee stock purchase plan		(462)			668	206
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(93)			86	(7)
Net issuance of stock options exercised, net of shares redeemed		(818)			871	53
Cash dividends common stock at $0.34 per share			(9,759)			(9,759)
Stock dividend equivalents restricted stock units at $0.34 per share		165	(165)			
Stock-based employee compensation		792				792
Balance, June 30, 2016	$ 39	$ 785,825	$ (177,372)	$ 7,971	$ (28,346)	$ 588,117
Balance, December 31, 2016	$ 39	$ 781,716	$ (163,689)	$ 36	$ (23,788)	$ 594,314
Net income			31,649			31,649
Other comprehensive income				269		269
Issuance of treasury stock for employee stock purchase plan		(361)			664	303
Net issuance of treasury stock for restricted stock unit vesting and related tax benefit		(969)			914	(55)
Net issuance of stock options exercised, net of shares redeemed		(784)			921	137
Cash dividends common stock at $0.36 per share			(13,764)			(13,764)
Stock dividend equivalents restricted stock units at $0.36 per share		181	(181)			
Stock dividend accrued on restricted stock awards assumed with the Pulaski Financial Corp. acquisition at $0.36 per share			(11)			(11)
Return of 28,648 equity trust shares					(860)	(860)
Stock-based employee compensation		1,133				1,133

Balance, June 30, 2017	$ 39	$ 780,916	$ (145,996)	$ 305	$ (22,149)	$ 613,115

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

	2017	2016
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 31,649	$ 22,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	1,133	792
Depreciation	3,862	3,218
Amortization of intangible assets	2,389	1,875
Provision for loan losses	1,000	2,100
Provision for deferred income taxes	2,031	(4,621)
Amortization of security premiums and discounts, net	2,543	3,722
Accretion of premiums and discounts on time deposits and trust preferred securities, net	(198)	(237)
Accretion of premiums and discounts on portfolio loans, net	(3,270)	(1,962)
Net security gains	(853)	(1,219)
Gain on sales of mortgage loans, net of origination costs	(26,136)	(3,604)
Mortgage loans originated for sale	(758,338)	(531,235)
Proceeds from sales of mortgage loans	866,635	446,662
Net (gains) losses on disposition of premises and equipment	(56)	29
Increase in cash surrender value of bank owned life insurance	(888)	(678)
Change in assets and liabilities:		
Decrease in other assets	7,879	7,184
Increase (decrease) in other liabilities	4,839	(1,997)
Increase (decrease) in interest payable	396	(43)
Decrease (increase) in income taxes receivable	523	(700)
Net cash provided by (used in) operating activities before activities	$ 135,140	$ (57,897)
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	127,287	40,189
Proceeds from sales of securities classified held to maturity		399
Proceeds from maturities of securities classified available for sale	103,249	118,723
Proceeds from maturities of securities classified held to maturity	2,819	924
Purchase of securities classified available for sale	(116,327)	(70,686)
Purchase of securities classified held to maturity	(164,803)	(2,382)
Net (increase) decrease in portfolio loans	(32,403)	76,883
Proceeds from disposition of premises and equipment	611	845
Proceeds from sale of other real estate owned (OREO) properties	3,765	1,389
Purchases of premises and equipment	(6,054)	(4,682)
Net cash received in acquisitions		25,575
Proceeds from the redemption of Federal Home Loan Bank (FHLB) stock	6,001	9,960
Purchase of FHLB stock		(9,288)
Net cash (used in) provided by investing activities	$ (75,855)	$ 187,849

(continued on next page)

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FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

	2017	2016
	(dollars in thousands)	
Cash Flows from Financing Activities		
Net decrease in certificates of deposit	$ (64,286)	$ (71,071)
Net increase (decrease) in demand, money market and savings deposits	84,468	(61,280)
Net decrease in securities sold under agreements to repurchase	(10,560)	(22,086)
Repayment of short-term borrowings	(25,000)	(12,800)
Repayment of long-term debt		(4,906)
Net proceeds from issuance of senior debt	39,351	
Net proceeds from issuance of subordinated debt	59,022	
Cash dividends paid	(13,764)	(9,759)
Value of shares surrendered upon vesting to satisfy tax withholding obligations of stock-based compensation	(1,259)	(12)
Proceeds from stock options exercised	137	
Common stock issuance costs		(246)
Net cash provided by (used in) financing activities	$ 68,109	$ (182,160)
Net increase (decrease) in cash and cash equivalents	$ 127,394	$ (52,208)
Cash and cash equivalents, beginning of period	$ 166,706	$ 319,280
Cash and cash equivalents, ending of period	$ 294,100	$ 267,072
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 6,162	$ 4,205
Income taxes	$ 13,116	$ 9,300
Non-cash investing and financing activities:		
Real estate acquired in settlement of loans	$ 258	$ 1,343

See accompanying notes to unaudited Consolidated Financial Statements.

FIRST BUSEY CORPORATION and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of First Busey Corporation (First Busey or the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information and with the instructions to Form 10-Q, and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2016 on file with the SEC.

The accompanying Consolidated Balance Sheet as of December 31, 2016, which has been derived from audited financial statements, and the unaudited Consolidated Financial Statements have been prepared in accordance with GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations as of the dates and for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

On April 30, 2016, First Busey acquired Pulaski Financial Corp., a Missouri corporation (Pulaski), and its wholly-owned bank subsidiary, Pulaski Bank, National Association (Pulaski Bank). First Busey operated Pulaski Bank as a separate banking subsidiary from May 1, 2016 until November 4, 2016, when it was merged with and into Busey Bank. At that time, Pulaski Bank s branches became branches of Busey Bank. The unaudited Consolidated Financial Statements include the accounts of the Company, Busey Bank and Busey Bank s wholly-owned subsidiaries, FirsTech, Inc. and Pulaski Service Corporation (as of the date of acquisition, April 30, 2016) and Busey Wealth Management, Inc. and its wholly-owned subsidiary, Busey Trust Company. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior-year amounts have been reclassified to conform to the current presentation with no effect on net income or stockholders equity.

On February 6, 2017, the Company entered into an Agreement and Plan of Merger (FCFP Merger Agreement) with First Community Financial Partners, Inc., an Illinois corporation (First Community). On July 2, 2017, the Company completed its acquisition of First Community, under which each share of First Community common stock issued and outstanding was converted into 0.396 shares of the Company s common stock, cash in lieu of fractional shares and $1.35 cash consideration per share. It is anticipated that First Community Financial Bank, First Community s wholly-owned bank subsidiary prior to the acquisition, will be merged with and into Busey Bank in the fourth quarter of 2017. At the time of the bank merger, First Community Financial Bank s banking offices will become branches of Busey Bank. As of June 30, 2017, First Community had total consolidated assets of $1.4 billion, total loans of $1.1 billion and total deposits of $1.1 billion. The unaudited Consolidated Financial Statements in this Form 10-Q do not include the accounts of First Community. See Note 2: Acquisitions for further information relating to this acquisition.

On March 13, 2017, the Company entered into an Agreement and Plan of Merger (MIB Merger Agreement) with Mid Illinois Bancorp, Inc., an Illinois corporation (Mid Illinois), pursuant to which Mid Illinois will merge into First Busey, with First Busey as the surviving corporation (MIB Merger). It is anticipated that South Side Trust & Savings Bank of Peoria, Mid Illinois s wholly-owned bank subsidiary (South Side), will be merged with and into Busey Bank at a date following the completion of the holding company merger. At the time of the bank merger, South Side s banking offices will become branches of Busey Bank. As of June 30, 2017, Mid Illinois had total consolidated assets of $661.9 million, total loans of $373.3 million and total deposits of $513.7 million. MIB Merger is anticipated to be completed in the fourth quarter of 2017, and is subject to the satisfaction of customary closing conditions in MIB Merger Agreement and the approval of the appropriate regulatory authorities and of the stockholders of Mid Illinois. See Note 2: Acquisitions for further information relating to this planned acquisition.

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

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q were issued. On July 2, 2017, First Busey completed the First Community acquisition. The financial results of First Community are not recognized in this Form 10-Q. Other than the completion of the First Community acquisition, there were no significant subsequent events for the quarter ended June 30, 2017 through the issuance date of these unaudited Consolidated Financial Statements that warranted adjustment to or disclosure in the unaudited Consolidated Financial Statements.

Note 2: Acquisitions

Pulaski Financial Corp.

On April 30, 2016, First Busey completed its acquisition of Pulaski, which was headquartered in St. Louis, Missouri. Pulaski Bank, which was Pulaski s wholly-owned bank subsidiary prior to the acquisition, offered a full line of quality retail and commercial banking products through thirteen full-service branch offices in the St. Louis metropolitan area and mortgage loan products through loan production offices across the Midwest. The operating results of Pulaski are included with the Company s results of operations since the date of acquisition. First Busey operated Pulaski Bank as a separate subsidiary from May 1, 2016 until November 4, 2016 when it was merged with and into Busey Bank. At that time, Pulaski Bank s branches became branches of Busey Bank.

Under the terms of the definitive agreement, at the effective time of the acquisition, each share of Pulaski common stock issued and outstanding was converted into 0.79 shares of First Busey common stock and cash in lieu of fractional shares. The market value of the 9.4 million shares of First Busey common stock issued at the effective time of the acquisition was approximately $193.0 million based on First Busey s closing stock price of $20.44 on April 29, 2016. In addition, all of the options to purchase shares of Pulaski common stock that were outstanding at the acquisition date were converted into options to purchase shares of First Busey common stock, adjusted for the 0.79 exchange ratio.

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at their estimated fair values on the date of acquisition. The total consideration paid, which was used to determine the amount of goodwill resulting from the transaction, also included the fair value of outstanding Pulaski stock options that were converted into options to purchase common shares of First Busey. As the total consideration paid for Pulaski exceeded the net assets acquired, goodwill of $77.3 million was recorded as a result of the acquisition. Goodwill recorded in the transaction, which reflects the synergies expected from the acquisition and the enhanced revenue opportunities from the Company s broader service capabilities in the St. Louis market, is not tax deductible, and was assigned to the Banking operating segment.

First Busey incurred an insignificant amount of expenses related to the acquisition of Pulaski for the three and six months ended June 30, 2017. First Busey incurred $2.0 million and $2.3 million in pre-tax expenses related to the acquisition of Pulaski for the three and six months ended June 30, 2016, respectively, primarily for data processing and professional and legal fees, to directly consummate the acquisition, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

The following table presents the assets acquired and liabilities assumed of Pulaski as of April 30, 2016 and their fair value estimates *(dollars in thousands)*:

	As Recorded by Pulaski	Fair Value Adjustments	As Recorded by First Busey
Assets acquired:			
Cash and cash equivalents	$ 25,580	$	$ 25,580
Securities	47,895	105(a)	48,000
Loans held for sale	184,856		184,856
Portfolio loans	1,243,913	(14,452)(b)	1,229,461
Premises and equipment	17,236	(667)(c)	16,569
OREO	5,022	(2,534)(d)	2,488
Goodwill	3,939	(3,939)(e)	
Other intangible assets		15,468(f)	15,468
Other assets	70,365	(122)(g)	70,243
Total assets acquired	1,598,806	(6,141)	1,592,665
Liabilities assumed:			
Deposits	1,226,906	1,102(h)	1,228,008
Other borrowings	205,840	906(i)	206,746
Trust preferred securities	19,589	(3,805)(j)	15,784
Other liabilities	24,594	(612)(k)	23,982
Total liabilities assumed	1,476,929	(2,409)	1,474,520
Net assets acquired	$ 121,877	$ (3,732)	$ 118,145
Consideration paid:			
Cash			$ 5
Common stock			192,990
Fair value of stock options assumed			2,454
Total consideration paid			195,449
Goodwill			$ 77,304

Explanation:

(a) Fair value adjustments of the securities portfolio as of the acquisition date.

(b) Fair value adjustments based on the Company s evaluation of the acquired loan portfolio, write-off of net deferred loan costs and elimination of the allowance for loan losses recorded by Pulaski. $16.9 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method.

(c) Fair value adjustments based on the Company s evaluation of the acquired premises and equipment.

(d) Fair value adjustment based on the Company s evaluation of the acquired OREO portfolio.

(e) Eliminate Pulaski s existing goodwill.

(f) Recording of the core deposit intangible asset on the acquired core deposit accounts. Amount to be amortized using a sum of years digits method over a 14 year useful life.

(g) Fair value adjustment of other assets at the acquisition date.

(h) Fair value adjustment to time deposits. Amount to be accreted over two years in a manner that approximates the level yield method.

(i) Fair value adjustment to the FHLB borrowings. Such borrowings were repaid shortly after the acquisition date, so there will be no discount accretion.

(j) Fair value adjustment to the trust preferred securities at the acquisition date. Amount to be accreted over the weighted average remaining life of 18 years in a manner that approximates the level yield method.

(k) Fair value adjustment of other liabilities at the acquisition date.

The loans acquired in this transaction were recorded at fair value with no carryover of any existing allowance for loan losses. Loans that were not deemed to be credit-impaired at the acquisition date were accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310-20, Receivables-Nonrefundable Fees and Other Costs, and were subsequently considered as part of the Company s determination of the adequacy of the allowance for loan losses. Purchased credit-impaired (PCI) loans, which are loans with evidence of credit quality deterioration at the date of acquisition, were accounted for under ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality. As of the acquisition date, the aggregate principal outstanding and aggregate fair value of the acquired performing loans, including loans held for sale, both rounded to $1.4 billion. The difference between the aggregate principal balance outstanding and aggregate fair value of $16.6 million is expected to be accreted over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method. As of the acquisition date, the aggregate principal balance outstanding of PCI loans totaled $21.2 million and the aggregate fair value of PCI loans totaled $9.7 million, which became such loans new carrying value. At June 30, 2017, PCI loans with a carrying value of $1.1 million were outstanding. Material activity includes PCI loans with a carrying value of $6.2 million being sold to outside parties in the third quarter of 2016 and a commercial PCI loan with a carrying value of $1.6 million being collected in the fourth quarter of 2016. For PCI loans, the difference between contractually required payments at the acquisition date and the cash flow expected to be collected is referred to as the non-accretable difference. Further, the excess of cash flows expected at acquisition over the fair value is referred to as the accretable yield. The accretable yield, as of the acquisition date, of $0.3 million on PCI loans was expected to be recognized over the estimated four year remaining life of the respective loans in a manner that approximates the level yield method; however, the majority was accelerated in 2016 as a result of the third quarter loan sale and fourth quarter collection.

The following table provides the unaudited pro forma information for the results of operations for the three and six months ended June 30, 2016, as if the acquisition had occurred January 1, 2016. The pro forma results combine the historical results of Pulaski into the Company s Consolidated Statements of Income, adjusted for the impact of the application of the acquisition method of accounting including loan discount accretion, intangible assets amortization, and deposit and trust preferred securities premium accretion, net of taxes. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2016. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Only the acquisition related expenses that had been recognized are included in net income in the table below *(dollars in thousands)*:

	Pro Forma	
	Three Months Ended June 30, 2016	**Six Months Ended June 30, 2016**
Total revenues (net interest income plus non-interest income)	$ 61,344	$ 123,237
Net income	9,239	23,165
Diluted earnings per common share	0.24	0.60

<u>First Community Financial Partners, Inc.</u>

On July 2, 2017, the Company completed its acquisition of First Community, headquartered in Joliet, Illinois, under which each share of First Community common stock issued and outstanding was converted into 0.396 shares of the Company s common stock, cash in lieu of fractional shares and $1.35 cash consideration per share. It is anticipated that First Community Financial Bank, will be merged with and into Busey Bank in the fourth quarter of 2017. At the time of the bank merger, First Community Financial Bank s banking offices will become branches of Busey Bank. As of June 30, 2017, First Community had total consolidated assets of $1.4 billion, total loans of $1.1 billion and total deposits of $1.1 billion.

Founded in 2004, First Community operated nine branches in Will, DuPage and Grundy counties, which encompass portions of the southwestern suburbs of Chicago. Please reference the FCFP Merger Agreement and the Company s Registration Statement on Form S-4, which includes a proxy statement/prospectus, filed on April 18, 2017 for additional information regarding the acquisition of First Community.

This transaction will be accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged will be recorded at estimated fair values on the date of acquisition. Fair value assessments are incomplete as of the filing date of this Form 10-Q. Fair values are subject to refinement for up to one year after the closing date of July 2, 2017. This acquisition is a subsequent event and the financial results of First Community are not recognized in this Form 10-Q.

First Busey incurred $0.2 million and $0.8 million in pre-tax expenses related to the acquisition of First Community for the three and six months ended June 30, 2017, respectively, primarily for professional and legal fees, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Financial Statements.

The following table provides the unaudited pro forma information for the results of operations for the three and six months ended June 30, 2017 and 2016, as if the acquisition had occurred January 1, 2016. The pro forma results combine the historical results of First Community into the Company s Consolidated Statements of Income, including the impact of estimated purchase accounting adjustments including loan discount accretion, intangible assets amortization, deposit accretion and premises accretion, net of taxes. The 2016 pro forma results reflect Pulaski pro forma information as well, which is shown separately above. Actual purchase accounting adjustments are incomplete as of the filing date of this Form 10-Q. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1 of each year. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions. Only the merger related expenses that have been recognized are included in net income in the table below (*dollars in thousands)*:

	Pro Forma Three Months Ended June 30,		**Pro Forma Six Months Ended June 30,**	
	2017	**2016**	**2017**	**2016**
Total revenues (net interest income plus non-interest income)	$ 78,122	$ 71,793	$ 152,227	$ 143,032
Net income	21,462	11,615	40,149	27,678
Diluted earnings per common share	0.47	0.25	0.87	0.60

Mid Illinois Bancorp, Inc.

On March 13, 2017, the Company entered into the MIB Merger Agreement with Mid Illinois, pursuant to which Mid Illinois will merge into First Busey, with First Busey as the surviving corporation. It is anticipated that South Side will be merged with and into Busey Bank at a date following the completion of the holding company merger. At the time of the bank merger, South Side s banking offices will become branches of Busey Bank. The MIB Merger is anticipated to be completed in the fourth quarter of 2017, and is subject to the satisfaction of customary closing conditions in the MIB Merger Agreement and the approval of the appropriate regulatory authorities and of the stockholders of Mid Illinois. As of June 30, 2017, Mid Illinois had total consolidated assets of $661.9 million, total loans of $373.3 million and total deposits of $513.7 million.

Founded in 1922, South Side operates as a state chartered commercial and trust bank with thirteen branches located within the greater Peoria area. South Side also owns Mid-Illinois Insurance Services, Inc. For more information, please reference the MIB Merger Agreement and the Company s Registration Statement on Form S-4, which includes a proxy statement/prospectus regarding our planned acquisition of Mid Illinois, filed on July 7, 2017, which will be amended.

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

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

Note 3: Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract and will also require additional disclosures. The new authoritative guidance was originally effective for reporting periods after December 15, 2016. In August 2015, *ASU 2015-14, Revenue from Contracts with Customers (Topic 606)* was issued to delay the effective date of ASU 2014-09 by one year. The FASB issued four subsequent ASUs in 2016 which are intended to improve and clarify the implementation guidance related to ASU 2014-09. The Company s revenue is comprised of net interest income, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. ASU 2014-09 may require the Company to change how it recognizes certain recurring revenues related to non-interest income; however it is not expected to have a material impact on its Consolidated Financial Statements and related disclosures. The Company expects to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by, among other things, requiring: equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the Balance Sheet or the accompanying notes to the Consolidated Financial Statements; eliminating the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the Balance Sheet; and requiring an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 will be effective on January 1, 2018 and the Company is continuing to assess the impact this guidance will have on its Consolidated Financial Statements and related disclosures.

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

ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements a comprehensive change in estimating the allowances for loan losses from the current model of losses inherent in the loan portfolio to a current expected credit loss model that generally is expected to result in earlier recognition of allowances for losses. Further, purchase accounting rules have been modified as well as credit losses on held to maturity debt securities. ASU 2016-13 will be effective in the first quarter of 2020. The Company has an implementation team working through the provisions of ASU 2016-13, including evaluating the impact this guidance will have on its Consolidated Financial Statements and related disclosures.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides clarification regarding how certain cash receipts and cash payment are presented and classified in the Consolidated Statements of Cash Flows. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact to its Consolidated Financial Statements.

ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by requiring an entity to recognize the income tax consequences when a transfer occurs, instead of when an asset is sold to an outside party. This guidance is effective for annual reporting periods beginning after December 15, 2017. The new standard will require adoption on a modified retrospective basis through a cumulative-effect adjustment to retained earnings, and early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition and provides a more robust framework to use in determining when a set of assets and activities constitutes a business. ASU 2017-01 is intended to provide guidance when evaluating whether transactions should be accounted for as acquisitions of assets or businesses. This guidance is effective for annual reporting periods beginning after December 15, 2017 and is not expected to have a significant impact to the Company s Consolidated Financial Statements.

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

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

ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 provides guidance on determining which changes to the terms and conditions of share-based payment awards, including stock options, require an entity to apply modification accounting under Topic 718. This guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect this guidance to have a material impact on its Consolidated Financial Statements.

Note 4: Securities

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017:				
Available for sale				
U.S. Treasury securities	$ 85,793	$ 116	$ (61)	$ 85,848
Obligations of U.S. government corporations and agencies	67,122	26	(373)	66,775
Obligations of states and political subdivisions	142,242	1,311	(200)	143,353
Residential mortgage-backed securities	314,169	1,322	(2,140)	313,351
Corporate debt securities	31,796	209	(11)	31,994
Total debt securities	641,122	2,984	(2,785)	641,321
Mutual funds and other equity securities	4,719	309		5,028
Total	$ 645,841	$ 3,293	$ (2,785)	$ 646,349
Held to maturity				
Obligations of states and political subdivisions	$ 42,546	$ 407	$ (10)	$ 42,943
Commercial and residential mortgage-backed securities	166,088	413	(441)	166,060
Total	$ 208,634	$ 820	$ (451)	$ 209,003

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016:				
Available for sale				
U.S. Treasury securities	$ 74,784	$ 185	$ (25)	$ 74,944
Obligations of U.S. government corporations and agencies	79,577	46	(496)	79,127
Obligations of states and political subdivisions	154,438	1,093	(593)	154,938
Residential mortgage-backed securities	303,641	1,390	(2,782)	302,249
Corporate debt securities	142,836	630	(123)	143,343
Total debt securities	755,276	3,344	(4,019)	754,601
Mutual funds and other equity securities	4,475	735		5,210
Total	$ 759,751	$ 4,079	$ (4,019)	$ 759,811
Held to maturity				
Obligations of states and political subdivisions	$ 44,333	$ 122	$ (160)	$ 44,295
Commercial mortgage-backed securities	3,487	23	(122)	3,388
Total	$ 47,820	$ 145	$ (282)	$ 47,683

The amortized cost and fair value of debt securities as of June 30, 2017, by contractual maturity or pre-refunded date, are shown below *(dollars in thousands)*. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary. Mortgages underlying mortgage-backed securities may be called or prepaid; therefore, actual maturities could differ from the contractual maturities. All mortgage-backed securities were issued by U.S. government agencies and corporations.

	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 71,081	$ 71,198	$ 1,764	$ 1,766
Due after one year through five years	222,954	223,168	21,022	21,173
Due after five years through ten years	67,533	68,875	20,530	20,704
Due after ten years	279,554	278,080	165,318	165,360
Total	$ 641,122	$ 641,321	$ 208,634	$ 209,003

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross security gains	$ 1	$ 171	$ 969	$ 1,245
Gross security (losses)	(5)	(19)	(116)	(26)
Net security (losses) gains	$ (4)	$ 152	$ 853	$ 1,219

The tax provision for the net realized gains and losses was insignificant for the three months ended June 30, 2017. The tax provision for the net realized gains and losses was $0.3 million for the six months ended June 30, 2017. The tax provision for the net realized gains and losses was $0.1 million and $0.4 million for the three and six months ended June 30, 2016, respectively.

Investment securities with carrying amounts of $541.4 million and $547.2 million on June 30, 2017 and December 31, 2016, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Information pertaining to securities with gross unrealized losses at June 30, 2017 and December 31, 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (*dollars in thousands*):

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
June 30, 2017:						
Available for sale						
U.S. Treasury securities	$ 24,525	$ (61)	$	$	$ 24,525	$ (61)
Obligations of U.S. government corporations and agencies	52,159	(373)			52,159	(373)
Obligations of states and political subdivisions	46,018	(172)	2,536	(28)	48,554	(200)
Residential mortgage-backed securities	161,359	(2,140)			161,359	(2,140)
Corporate debt securities	5,848	(7)	484	(4)	6,332	(11)
Total temporarily impaired securities	$ 289,909	$ (2,753)	$ 3,020	$ (32)	$ 292,929	$ (2,785)
Held to maturity						
Obligations of states and political subdivisions	$ 5,621	$ (10)	$	$	$ 5,621	$ (10)
Commercial and residential mortgage-backed securities	122,551	(441)			122,551	(441)
Total temporarily impaired securities	$ 128,172	$ (451)	$	$	$ 128,172	$ (451)

	Continuous unrealized losses existing for less than 12 months, gross		Continuous unrealized losses existing for greater than 12 months, gross		Total, gross	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2016:						
Available for sale						
U.S. Treasury securities	$ 9,997	$ (25)	$	$	$ 9,997	$ (25)
Obligations of U.S. government corporations and agencies	46,209	(496)			46,209	(496)
Obligations of states and political subdivisions	64,832	(585)	1,154	(8)	65,986	(593)
Residential mortgage-backed securities	168,898	(2,782)			168,898	(2,782)
Corporate debt securities	32,749	(123)			32,749	(123)
Total temporarily impaired securities	$ 322,685	$ (4,011)	$ 1,154	$ (8)	$ 323,839	$ (4,019)
Held to maturity						
Obligations of states and political subdivisions	$ 24,558	$ (160)	$	$	$ 24,558	$ (160)
Commercial mortgage-backed securities	2,385	(122)			2,385	(122)
Total temporarily impaired securities	$ 26,943	$ (282)	$	$	$ 26,943	$ (282)

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Securities are periodically evaluated for other-than-temporary impairment (OTTI). The total number of securities in the investment portfolio in an unrealized loss position as of June 30, 2017 was 196, and represented a loss of 0.76% of the aggregate carrying value. As of June 30, 2017, the Company does not intend to sell such securities and it is more-likely-than-not that the Company will recover the amortized cost prior to being required to sell the securities. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be OTTI at June 30, 2017.

The Company had available for sale obligations of state and political subdivisions with aggregate fair values of $143.4 million and $154.9 million as of June 30, 2017 and December 31, 2016, respectively. In addition, the Company had held to maturity obligations of state and political subdivisions with aggregate fair values of $42.9 million and $44.3 million as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, the aggregate fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $155.1 million of general obligation bonds and $31.2 million of revenue bonds issued by 245 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 27 states (including the District of Columbia), including six states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 15 states, including two states where the aggregate fair value exceeded $5.0 million.

As of December 31, 2016, the fair value of the Company s obligations of state and political subdivisions portfolio was comprised of $163.6 million of general obligation bonds and $35.6 million of revenue bonds issued by 260 issuers, primarily consisting of states, counties, cities, towns, villages and school districts. The Company held investments in general obligation bonds in 29 states (including the District of Columbia), including seven states in which the aggregate fair value exceeded $5.0 million. The Company held investments in revenue bonds in 16 states, including two states where the aggregate fair value exceeded $5.0 million.

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

<u>June 30, 2017:</u>

U.S. State	**Number of Issuers**	**Amortized Cost**	**Fair Value**	**Average Exposure Per Issuer (Fair Value)**
Illinois	73	$ 65,270	$ 65,957	$ 904
Michigan	31	18,011	18,314	591
Wisconsin	29	17,435	17,522	604
Pennsylvania	7	8,309	8,333	1,190
Texas	16	10,121	10,153	635
Ohio	10	10,964	10,978	1,098
Other	43	23,690	23,884	555
Total general obligations bonds	209	$ 153,800	$ 155,141	$ 742

<u>December 31, 2016:</u>

U.S. State	Number of Issuers		Amortized Cost		Fair Value		Average Exposure Per Issuer (Fair Value)
Illinois	70	$	59,120	$	59,182	$	845
Michigan	38		23,233		23,472		618
Wisconsin	31		21,390		21,479		693
Pennsylvania	10		10,242		10,235		1,023
Texas	16		10,731		10,702		669
Ohio	10		11,009		11,005		1,100
Iowa	3		5,332		5,345		1,782
Other	43		22,028		22,192		516
Total general obligations bonds	221	$	163,085	$	163,612	$	740

The general obligation bonds are diversified across many issuers, with $3.4 million being the largest exposure to a single issuer at June 30, 2017 and December 31, 2016. Accordingly, as of June 30, 2017 and December 31, 2016, the Company did not hold general obligation bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company s stockholders equity. Of the general obligation bonds in the Company s portfolio, 98.3% had been rated by at least one nationally recognized statistical rating organization and 1.7% were unrated, based on the aggregate fair value as of June 30, 2017. Of the general obligation bonds in the Company s portfolio, 98.4% had been rated by at least one nationally recognized statistical rating organization and 1.6% were unrated, based on the fair value as of December 31, 2016.

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

June 30, 2017:

U.S. State	**Number of Issuers**		**Amortized Cost**		**Fair Value**		**Average Exposure Per Issuer (Fair Value)**
Indiana	10	$	10,190	$	10,318	$	1,032
Illinois	7		6,339		6,384		912
Other	19		14,459		14,453		761
Total revenue bonds	36	$	30,988	$	31,155	$	865

December 31, 2016:

U.S. State	**Number of Issuers**		**Amortized Cost**		**Fair Value**		**Average Exposure Per Issuer (Fair Value)**
Indiana	10	$	11,207	$	11,244	$	1,124
Illinois	7		7,321		7,275		1,039
Other	22		17,158		17,102		777
Total revenue bonds	39	$	35,686	$	35,621	$	913

The revenue bonds are diversified across many issuers and revenue sources with $3.6 million and $3.5 million being the largest exposure to a single issuer at each of June 30, 2017 and December 31, 2016, respectively. Accordingly, as of June 30, 2017 and December 31, 2016, the Company did not hold revenue bonds of any single issuer, the aggregate book or market value of which exceeded 10% of the Company s stockholders equity. Of the revenue bonds in the Company s portfolio, 98.7% had been rated by at least one nationally recognized statistical rating organization and 1.3% were unrated, based on the fair value as of June 30, 2017. Of the revenue bonds in the Company s portfolio, 97.1% had been rated by at least one nationally recognized statistical rating organization and 2.9% were unrated, based on the fair value as of December 31, 2016. Some of the primary types of revenue bonds held in the Company s portfolio include: primary education or government building lease rentals secured by ad valorem taxes, utility systems secured by utility system net revenues, housing authorities secured by mortgage loans or principal receipts on mortgage loans, secondary education secured by student fees/tuitions, and pooled issuances (i.e. bond bank) consisting of multiple underlying municipal obligors.

Substantially all of the Company s obligations of state and political subdivision securities are owned by its subsidiary bank**,** which has adopted First Busey s investment policy requiring that state and political subdivision securities purchased be investment grade. Such investment policy also limits the amount of rated state and political subdivision securities to an aggregate 100% of the subsidiary bank s Total Capital (as defined by federal regulations) at the time of purchase and an aggregate 15% of Total Capital for unrated state and political subdivision securities issued by municipalities having taxing authority or located in counties/micropolitan statistical areas/metropolitan statistical areas in which an office is located. The investment policy states fixed income investments that are not Office of the Comptroller of the Currency Type 1 securities (U.S. Treasuries, agencies, municipal government general obligation and, for well-capitalized institutions, most municipal revenue bonds) should be analyzed prior to acquisition to determine that (1) the security has low risk of default by the obligor, and (2) the full and timely repayment of principal and interest is expected over the expected life of the investment.

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

Note 5: Loans held for sale

Loans held for sale totaled $168.4 million and $256.3 million at June 30, 2017 and December 31, 2016, respectively. The amount of loans held for sale decreased from December 31, 2016, due to lower origination volumes in 2017. Loans held for sale generate net interest income until loans are delivered to investors, at which point mortgage revenue will be recognized.

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Premiums received on sales of mortgage loans, including fair value adjustments	$ 10,065	$ 8,470	$ 22,216	$ 9,119
Less direct origination costs	(7,648)	(5,501)	(18,035)	(5,754)
Less provisions to liability for loans sold	(150)	(50)	(175)	(50)
Mortgage servicing revenues	503	450	898	934
Mortgage revenue	$ 2,770	$ 3,369	$ 4,904	$ 4,249

Note 6: Portfolio loans

Distributions of portfolio loans were as follows *(dollars in thousands)*:

	June 30, 2017	December 31, 2016
Commercial	$ 958,639	$ 959,888
Commercial real estate	1,687,710	1,654,164
Real estate construction	181,912	182,078
Retail real estate	1,080,051	1,069,060
Retail other	12,152	13,710
Portfolio loans	$ 3,920,464	$ 3,878,900
Less allowance for loan losses	49,201	47,795
Portfolio loans, net	$ 3,871,263	$ 3,831,105

Net deferred loan origination costs included in the table above were $3.6 million as of June 30, 2017 and $2.5 million as of December 31, 2016. Net accretable purchase accounting adjustments included in the table above reduced loans by $9.4 million as of June 30, 2017 and $12.7 million as of December 31, 2016.

The Company believes that making sound loans is a necessary and desirable means of employing funds available for investment. Recognizing the Company s obligations to its stockholders, depositors, and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures designed to focus lending efforts on the types, locations and duration of loans most appropriate for its business model and markets. While not specifically limited, the Company attempts to focus its lending on short to intermediate-term (0-7 years) loans in geographic areas within 125 miles of its lending offices. Loans might be originated outside of these areas, but such loans are generally residential mortgage loans originated for sale in the secondary market and reported in loans held for sale balances or to existing customers of the Bank. The Company attempts to utilize government-assisted lending programs, such as the Small Business Administration and United States Department of Agriculture lending programs, when prudent. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid primarily from cash flows of the borrowers, or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company s lending policies and procedures on a routine basis. Management routinely (at least quarterly) reviews the Company s allowance for loan losses in conjunction with reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company s underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at a minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in the Company s loan underwriting decisions. As a part of underwriting, tangible positive or negative evidence of the borrower s integrity and character are sought out. Additional significant underwriting factors beyond location, duration, a sound and profitable cash flow basis and the borrower s character include the quality of the borrower s financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

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

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

The Company s lending activities can be summarized into five primary areas: commercial loans, commercial real estate loans, real estate construction loans, retail real estate loans, and retail other loans. A description of each of the lending areas can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2016. The significant majority of the Company s portfolio lending activity occurs in its Illinois and Missouri markets, with the remainder in the Indiana and Florida markets.

The Company utilizes a loan grading scale to assign a risk grade to all of its loans. A description of the general characteristics of each grade is as follows:

- *Pass-* This category includes loans that are all considered strong credits, ranging from investment or near investment grade, to loans made to borrowers who exhibit credit fundamentals that exceed industry standards and loan policy guidelines and loans that exhibit acceptable credit fundamentals.

- *Watch-* This category includes loans on management s Watch List and is intended to be utilized on a temporary basis for a pass grade borrower where a significant risk-modifying action is anticipated in the near future.

- *Special mention-* This category is for Other Assets Specially Mentioned loans that have potential weaknesses, which may, if not checked or corrected, weaken the asset or inadequately protect the Company s credit position at some future date.

- *Substandard-* This category includes Substandard loans, determined in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- *Doubtful-* This category includes Doubtful loans that have all the characteristics of a Substandard loan with additional factors that make collection in full highly questionable and improbable. Such loans are placed on non-accrual status and may be dependent on collateral with a value that is difficult to determine.

All loans are graded at their inception. Most commercial lending relationships that are $1.0 million or less are processed through an expedited underwriting process. If the credit receives a pass grade, it is aggregated into a homogenous pool of either: $0.35 million or less, or $0.35 million to $1.0 million. These pools are monitored on a regular basis and reviewed annually. Most commercial loans greater than $1.0 million are included in a portfolio review at least annually. Commercial loans greater than $0.35 million that have a grading of special mention or worse are reviewed on a quarterly basis. Interim reviews may take place if circumstances of the borrower warrant a more timely review.

Portfolio loans in the highest grades, represented by the pass and watch categories, totaled $3.79 billion at June 30, 2017, compared to $3.72 billion December 31, 2016. Portfolio loans in the lowest grades, represented by the special mention, substandard and doubtful categories, totaled $135.8 million at June 30, 2017, compared to $165.5 million at December 31, 2016.

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

	June 30, 2017				
	Pass	Watch	Special Mention	Substandard	Doubtful
Commercial	$ 768,845	$ 125,169	$ 25,684	$ 30,994	$ 9,456
Commercial real estate	1,526,365	112,921	15,813	29,958	5,540
Real estate construction	133,371	40,591	5,319	3,542	32
Retail real estate	1,065,428	5,557	3,514	2,069	3,860
Retail other	12,154				47
Total	$ 3,506,163	$ 284,238	$ 50,330	$ 66,563	$ 18,935

	December 31, 2016				
	Pass	Watch	Special Mention	Substandard	Doubtful
Commercial	$ 826,163	$ 70,260	$ 26,951	$ 26,941	$ 11,685
Commercial real estate	1,507,513	69,145	40,775	35,385	5,154
Real estate construction	134,574	39,936	8,033	994	47
Retail real estate	1,050,671	6,586	2,793	2,158	4,484
Retail other	13,691	27	2		53
Total	$ 3,532,612	$ 185,954	$ 78,554	$ 65,478	$ 21,423

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of the principal due. Loans may be returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

	June 30, 2017			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+ Days	Loans
Commercial	$ 705	$ 125	$	$ 9,456
Commercial real estate	1,148	606	1,085	5,540
Real estate construction	446			32
Retail real estate	2,680	1,229	38	3,860
Retail other	13	1		47
Total	$ 4,992	$ 1,961	$ 1,123	$ 18,935

	December 31, 2016			
	Loans past due, still accruing			Non-accrual
	30-59 Days	60-89 Days	90+ Days	Loans
Commercial	$ 165	$ 363	$ 37	$ 11,685
Commercial real estate	478	256		5,154
Real estate construction				47
Retail real estate	2,394	364	94	4,484
Retail other	55	15		53
Total	$ 3,092	$ 998	$ 131	$ 21,423

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

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

The gross interest income that would have been recorded in the three and six months ended June 30, 2017 if impaired loans had been current in accordance with their original terms was $0.2 million and $0.5 million, respectively. The amount of interest collected on those loans and recognized on a cash basis that was included in interest income was insignificant for the three and six months ended June 30, 2017.

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

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The Company considers the customer s past performance, previous and current credit history, the individual circumstances surrounding the customer s current difficulties and the customer s plan to meet the terms of the loan in the future prior to restructuring the terms of the loan. Generally, all five primary areas of lending are restructured through short-term interest rate relief, short-term principal payment relief, short-term principal and interest payment relief or forbearance (debt forgiveness). Once a restructured loan exceeds 90 days past due or is placed on non-accrual status, it is classified as non-performing. A summary of restructured loans as of June 30, 2017 and December 31, 2016 is as follows *(dollars in thousands)*:

	June 30, 2017		December 31, 2016	
Restructured loans:				
In compliance with modified terms	$	11,730	$	10,593
30 89 days past due		57		59
Included in non-performing loans		2,162		1,285
Total	$	13,949	$	11,937

All TDRs are considered to be impaired for purposes of assessing the adequacy of the allowance for loan losses and for financial reporting purposes. When the Company modifies a loan in a TDR, it evaluates any possible impairment similar to other impaired loans based on present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. If the Company determines that the fair value of the TDR is less than the recorded investment in the loan, impairment is recognized through an allowance estimate in the period of the modification and in periods subsequent to the modification.

Performing loans classified as TDRs during the three and six months ended June 30, 2017 included one commercial modification for short-term principal payment relief, with a recorded investment of $1.6 million and one retail real estate modification for short-term interest rate relief, with a recorded investment of $0.3 million.

Performing loans classified as TDRs during the three months ended June 30, 2016 included four retail real estate modifications for short-term principal payment relief, with a recorded investment of $0.1 million. Performing loans classified as TDRs during the six months ended June 30, 2016 included three commercial real estate modifications for short-term principal payment relief, with a recorded investment of $0.3 million and six retail real estate modifications for short-term principal payment relief, with a recorded investment of $0.4 million.

The gross interest income that would have been recorded in the three and six months ended June 30, 2017 and 2016 if performing TDRs had been performing in accordance with their original terms compared with their modified terms was insignificant.

There were no TDRs that were entered into during the last twelve months that were subsequently classified as non-performing and had payment defaults (a default occurs when a loan is 90 days or more past due or transferred to non-accrual) during the three and six months ended June 30, 2017.

TDRs that were entered into during the prior twelve months that subsequently were classified as non-performing and had payment defaults during the three months ended June 30, 2016 consisted of three retail real estate modifications totaling $0.2 million. TDRs that were entered into during the prior twelve months that were subsequently classified as non-performing and had payment defaults during the six months ended June 30, 2016 consisted of four retail real estate modifications totaling $0.2 million and one retail other modification totaling $0.1 million.

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The following tables provide details of impaired loans, segregated by category *(dollars in thousands)*. The unpaid contractual principal balance represents the recorded balance prior to any partial charge-offs. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan. The average recorded investment is calculated using the most recent four quarters.

	June 30, 2017					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 15,598	$ 7,498	$ 3,684	$ 11,182	$ 1,494	$ 9,916
Commercial real estate	15,586	11,398	2,127	13,525	1,152	11,671
Real estate construction	481	456		456		636
Retail real estate	12,905	11,249	371	11,620	140	13,177
Retail other	69	47	1	48	1	106
Total	$ 44,639	$ 30,648	$ 6,183	$ 36,831	$ 2,787	$ 35,506

	December 31, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial	$ 16,955	$ 8,060	$ 3,835	$ 11,895	$ 1,535	$ 10,127
Commercial real estate	12,922	9,036	3,118	12,154	1,778	8,939
Real estate construction	518	483	11	494	11	793
Retail real estate	13,112	11,733	385	12,118	140	13,102
Retail other	139	53	3	56	3	171
Total	$ 43,646	$ 29,365	$ 7,352	$ 36,717	$ 3,467	$ 33,132

Management s evaluation as to the ultimate collectability of loans includes estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

Allowance for Loan Losses

The allowance for loan losses represents an estimate of the amount of probable losses believed to be inherent in the Company s loan portfolio at the Consolidated Balance Sheet date. The allowance for loan losses is calculated geographically, by class of loans. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, the Company believes the allowance methodology is consistent with prior periods and the balance was adequate to cover the estimated losses in the Company s loan portfolio at June 30, 2017 and December 31, 2016.

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

The Company s component for adversely graded loans attempts to quantify the additional risk of loss inherent in the special mention and substandard portfolios. The substandard portfolio has an additional allocation of 3.00% placed on such loans, which is an estimate of the additional loss inherent in these loan grades based upon a review of overall historical charge-offs. As of June 30, 2017, the Company believed this reserve remained adequate. Special mention loans have an additional allocation of 1.00% placed on such loans, which is an estimate of the additional loss inherent in these loan grades. As of June 30, 2017, the Company believed this reserve remained adequate.

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

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

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

Based on each component s risk factor, a qualitative adjustment to the reserve may be applied to the appropriate loan categories. During the second quarter of 2017, the Company did not make adjustments to any qualitative factors. The Company will continue to monitor its qualitative factors on a quarterly basis.

The Company holds acquired loans from business combinations with uncollected principal balances. These loans are carried net of a fair value adjustment for credit risk and interest rates and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew, it is generally necessary to establish an allowance, which represents an amount that, in management s opinion, will be adequate to absorb probable credit losses in such loans. The balance of all acquired loans which did not require a related allowance for loan losses as of June 30, 2017 totaled approximately $789.7 million.

The following tables detail activity in the allowance for loan losses. Allocation of a portion of the allowance to one category does not preclude its availability to absorb losses in other categories *(dollars in thousands)*:

	As of and for the Three Months Ended June 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,260	$ 19,848	$ 2,021	$ 12,978	$ 335	$ 48,442
Provision for loan losses	(1,572)	1,279	(197)	1,020	(30)	500
Charged-off	(78)	(1,101)	(48)	(641)	(93)	(1,961)
Recoveries	1,318	98	385	324	95	2,220
Ending balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201

	As of and for the Six Months Ended June 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,303	$ 20,623	$ 1,870	$ 11,648	$ 351	$ 47,795
Provision for loan losses	(2,221)	1,059	(63)	2,240	(15)	1,000
Charged-off	(181)	(1,689)	(48)	(1,092)	(183)	(3,193)
Recoveries	2,027	131	402	885	154	3,599
Ending balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201

	As of and for the Three Months Ended June 30, 2016					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,323	$ 18,240	$ 1,836	$ 11,487	$ 285	$ 45,171
Provision for loan losses	(2,166)	2,275	(306)	1,204	93	1,100
Charged-off	(1,322)	(282)	(86)	(187)	(92)	(1,969)
Recoveries	311	42	117	535	51	1,056
Ending balance	$ 10,146	$ 20,275	$ 1,561	$ 13,039	$ 337	$ 45,358

	As of and for the Six Months Ended June 30, 2016					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	$ 13,115	$ 18,604	$ 1,763	$ 13,714	$ 291	$ 47,487
Provision for loan losses	1,245	1,896	(295)	(898)	152	2,100
Charged-off	(4,874)	(282)	(86)	(385)	(213)	(5,840)
Recoveries	660	57	179	608	107	1,611
Ending balance	$ 10,146	$ 20,275	$ 1,561	$ 13,039	$ 337	$ 45,358

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

	As of June 30, 2017					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individuallyevaluated for impairment	$ 1,494	$ 1,152	$	$ 140	$ 1	$ 2,787
Loans collectivelyevaluated for impairment	11,434	18,972	2,161	13,541	306	46,414
Ending balance	$ 12,928	$ 20,124	$ 2,161	$ 13,681	$ 307	$ 49,201
Loans:						
Loans individuallyevaluated for impairment	$ 11,127	$ 12,572	$ 456	$ 11,243	$ 48	$ 35,446
Loans collectivelyevaluated for impairment	947,457	1,674,185	181,456	1,068,431	12,104	3,883,633
PCI loans evaluated forimpairment	55	953		377		1,385
Ending balance	$ 958,639	$ 1,687,710	$ 181,912	$ 1,080,051	$ 12,152	$ 3,920,464

	As of December 31, 2016					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Amount allocated to:						
Loans individually evaluated for impairment	$ 1,535	$ 1,778	$ 11	$ 140	$ 3	$ 3,467
Loans collectively evaluated for impairment	11,768	18,845	1,859	11,508	348	44,328
Ending balance	$ 13,303	$ 20,623	$ 1,870	$ 11,648	$ 351	$ 47,795
Loans:						
Loans individually evaluated for impairment	$ 11,834	$ 11,147	$ 494	$ 11,644	$ 56	$ 35,175
Loans collectively evaluated for impairment	947,993	1,642,010	181,584	1,056,942	13,654	3,842,183
PCI loans evaluated for impairment	61	1,007		474		1,542
Ending balance	$ 959,888	$ 1,654,164	$ 182,078	$ 1,069,060	$ 13,710	$ 3,878,900

Note 7: OREO

OREO represents properties acquired through foreclosure or other proceedings in settlement of loans and is included in other assets in the accompanying Consolidated Balance Sheets. OREO is held for sale and is recorded at the date of foreclosure at the fair value of the properties less estimated costs of disposal, which establishes a new cost basis. Any adjustment to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Properties are evaluated regularly to ensure each recorded amount is supported by its current fair value, and valuation allowances to reduce the carrying amount due to subsequent declines in fair value less estimated costs to dispose are recorded as necessary. Revenue, expense, gains and losses from the operations of foreclosed assets are included in operations. At June 30, 2017, the Company held $0.4 million in commercial OREO, $0.1 million in residential OREO and an insignificant amount of other repossessed assets. At December 31, 2016, the Company held $2.0 million in commercial OREO, $0.5 million in residential OREO and an insignificant amount of other repossessed assets. At June 30, 2017 the Company had $1.1 million of residential real estate in the process of foreclosure.

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

	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Beginning balance	$ 2,518	$ 783
Additions, transfers from loans	258	2,775
Additions, fair value from Pulaski acquisition		2,488
Proceeds from sales of OREO	(3,765)	(4,498)
Gain on sales of OREO	1,469	999
Valuation allowance for OREO		(29)
Ending balance	$ 480	$ 2,518

Note 8: Deposits

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

	June 30, 2017	December 31, 2016
Demand deposits, noninterest-bearing	$ 1,105,041	$ 1,134,133
Interest-bearing transaction deposits	1,016,151	1,032,928
Saving deposits and money market deposits	1,551,374	1,421,037
Time deposits	721,646	786,200
Total	$ 4,394,212	$ 4,374,298

Interest-bearing transaction deposits included $28.1 million and $36.9 million of reciprocal brokered transaction deposits at June 30, 2017 and December 31, 2016, respectively. Savings deposits included $15.0 million and $22.2 million of reciprocal brokered deposits at June 30, 2017 and December 31, 2016, respectively.

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $317.0 million and $350.7 million at June 30, 2017 and December 31, 2016, respectively. The aggregate amount of time deposits with a minimum denomination that meets or exceeds the Federal Deposit Insurance Corporation insurance limit of $250,000 was approximately $75.3 million and $70.7 million at June 30, 2017 and December 31, 2016, respectively. There were no national deposits at June 30, 2017. National deposits of $0.1 million were included in the balance of time deposits as of December 31, 2016. The Company had reciprocal brokered time deposits of $73.8 million and $93.4 million at June 30, 2017 and December 31, 2016, respectively, included in the balance of time deposits. Further, the Company had brokered deposits of $5.0 million at June 30, 2017 and December 31, 2016, which are included in the balance of time deposits.

As of June 30, 2017, the scheduled maturities of time deposits are as follows *(dollars in thousands)*:

July 1, 2017	June 30, 2018	$	470,284
July 1, 2018	June 30, 2019		169,457
July 1, 2019	June 30, 2020		41,769
July 1, 2020	June 30, 2021		16,689
July 1, 2021	June 30, 2022		23,354
Thereafter			93
		$	721,646

Note 9: Borrowings

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

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

On May 5, 2017, the Company entered into an amendment to a credit agreement with a correspondent bank to extend a revolving loan facility to the Company in the maximum principal amount of $40.0 million. The loan has an annual interest rate of 2.50% plus the one-month LIBOR rate and has a maturity date of April 30, 2018. The loan also bears a non-usage fee calculated based on the average daily principal balance of the loan outstanding during the prior fiscal quarter. The Company had no outstanding amount on June 30, 2017 or December 31, 2016.

The following table sets forth the distribution of securities sold under agreements to repurchase and short-term borrowings and weighted average interest rates *(dollars in thousands)*:

		June 30, 2017		December 31, 2016
Securities sold under agreements to repurchase				
Balance at end of period	$	178,597	$	189,157
Weighted average interest rate at end of period		0.55%		0.30%
Maximum outstanding at any month end in year-to-date period	$	194,191	$	216,293
Average daily balance for the year-to-date period	$	171,283	$	181,474
Weighted average interest rate during period(1)		0.38%		0.22%
Short-term borrowings, FHLB advances				
Balance at end of period	$	50,000	$	75,000
Weighted average interest rate at end of period		1.20%		0.63%
Maximum outstanding at any month end in year-to-date period	$	50,000	$	236,700
Average daily balance for the year-to-date period	$	11,188	$	96,698
Weighted average interest rate during period(1)		0.74%		0.53%

Short-term borrowings, revolving loan				
Balance at end of period	$		$	
Weighted average interest rate at end of period		%		%
Maximum outstanding at any month end in year-to-date period	$		$	10,000
Average daily balance for the year-to-date period	$		$	2,596
Weighted average interest rate during period(1)(2)		%		4.78%

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

(2)Includes interest and non-usage fee.

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

	June 30, 2017	December 31, 2016
Notes payable, FHLB, ranging in original maturity from nineteen months to ten years, collateralized by FHLB deposits, residential and commercial real estate loans and FHLB stock.	$ 80,000	$ 80,000

As of June 30, 2017, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 0.70% to 0.95%. The weighted average rate on these long-term advances was 0.77% as of June 30, 2017. As of December 31, 2016, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 0.35% to 0.54%. The weighted average rate on the long-term advances was 0.41% as of December 31, 2016.

On May 25, 2017, the Company issued $40.0 million of 3.75% senior notes that mature on May 25, 2022. The senior notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017. Additionally, on May 25, 2017, the Company issued $60.0 million of fixed-to-floating rate subordinated notes that mature on May 25, 2027. The subordinated notes, which qualify as Tier 2 capital for First Busey, are at an initial rate of 4.75% for five years and thereafter at an annual floating rate equal to three-month LIBOR plus a spread of 2.919%. The subordinated notes are payable semi-annually on each May 25 and November 25, commencing on November 25, 2017 during the five year fixed-term and thereafter each February 25, May 25, August 25 and November 25 of each year, commencing on August 25, 2022. The subordinated notes have an optional redemption in whole or in part on any interest payment date on or after May 25, 2022. The senior notes and subordinated notes are unsecured obligations of the Company. Unamortized debt issuance costs related to the senior notes and subordinated notes totaled $0.6 million and $1.0 million, respectively, at June 30, 2017. The Company used the net proceeds from the offering to finance a portion of the consideration for its acquisition of First Community and to redeem a portion of its subordinated debentures in July 2017, and intends to use a portion to finance the planned acquisition of Mid Illinois, with the remaining proceeds to be used for general corporate purposes.

Note 10: Junior Subordinated Debt Owed to Unconsolidated Trusts

First Busey maintains statutory trusts for the sole purpose of issuing and servicing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrent with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are instruments that qualify, and are treated by the Company, as Tier 1 regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment. In connection with the Pulaski acquisition, the Company acquired similar statutory trusts maintained by Pulaski, which were adjusted to fair value. The Company had $70.9 million of junior subordinated debt owed to unconsolidated trusts at June 30, 2017 and December 31, 2016.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at par value at the stated maturity date or upon redemption. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes. The Company s obligations under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust s obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the notes, in which case the distributions on the trust preferred securities will also be deferred, for up to five years, but not beyond the stated maturity date. The Company does not expect to exercise this right.

Under current banking regulations, bank holding companies are allowed to include qualifying trust preferred securities in their Tier 1 Capital for regulatory capital purposes, subject to a 25% limitation to all core (Tier 1) capital elements, net of goodwill and other intangible assets less any associated deferred tax liability. As of June 30, 2017, 100% of the trust preferred securities qualified as Tier 1 capital under the final rule adopted in March 2005.

Note 11: Earnings Per Common Share

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income available to common stockholders	$ 16,479	$ 12,383	$ 31,649	$ 22,817
Shares:				
Weighted average common shares outstanding	38,311	34,984	38,302	31,861
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	441	308	444	241
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	38,752	35,292	38,746	32,102
Basic earnings per common share	$ 0.43	$ 0.35	$ 0.83	$ 0.72
Diluted earnings per common share	$ 0.43	$ 0.35	$ 0.82	$ 0.71

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

Diluted earnings per common share are computed using the treasury stock method and reflects the potential dilution that could occur if the Company s outstanding stock options were exercised and restricted stock units were vested. Stock options and restricted stock units for which the exercise or the grant price exceeds the average market price over the period have an anti-dilutive effect and are excluded from the calculation. At June 30, 2017, 10,850 outstanding options, 128,622 restricted stock units and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents. At June 30, 2016, 10,850 outstanding options and 191,278 warrants were anti-dilutive and excluded from the calculation of common stock equivalents.

Note 12: Share-based Compensation

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

Under the terms of the Company s 2010 Equity Incentive Plan, the Company is allowed, but not required, to source stock option exercises and grants of RSUs and DSUs from its inventory of treasury stock. As of June 30, 2017, the Company held 621,041 shares in treasury. On February 3, 2015, First Busey announced that its board of directors approved a repurchase plan under which the Company is authorized to repurchase up to an aggregate of 666,667 shares of its common stock. The repurchase plan has no expiration date and replaced the prior repurchase plan that was originally approved in 2008. During 2015, the Company purchased 333,333 shares under this repurchase plan. At June 30, 2017 the Company had 333,334 shares that may still be purchased under the plan.

A description of the 2010 Equity Incentive Plan, which was amended in 2015, can be found in the Company s Proxy Statement for the 2015 Annual Meeting of Stockholders. The Company s 2010 Equity Incentive Plan is designed to encourage ownership of its common stock by its employees and directors, to provide additional incentive for them to promote the success of the Company s business, and to attract and retain talented personnel. All of the Company s employees and directors, and those of its subsidiaries, are eligible to receive awards under the plan.

Stock Option Plan

A summary of the status of and changes in the Company s stock option awards for the six months ended June 30, 2017 follows:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	209,382	$	15.13	
Granted				
Exercised	(16,469)		10.90	
Forfeited				
Expired				
Outstanding at end of period	192,913	$	15.49	1.27
Exercisable at end of period	192,913	$	15.49	1.27

The Company did not record any stock option compensation expense for the three and six months ended June 30, 2017 or 2016. As of June 30, 2017, the Company had no unrecognized stock option expense.

Restricted Stock Unit Plan

A summary of the changes in the Company s stock unit awards for the six months ended June 30, 2017, is as follows:

	Restricted Stock Units		Weighted-Average Grant Date Fair Value	Director Deferred Stock Units		Weighted-Average Grant Date Fair Value
Non-vested at beginning of year	552,610	$	18.45	35,038	$	21.04
Granted	140,026		30.36			
Dividend equivalents earned	6,141		29.78	1,133		29.78
Vested	(27,917)		14.60	(18,245)		22.81
Forfeited	(5,900)		20.38			
Non-vested at end of period	664,960	$	21.21	17,926	$	19.80
Outstanding at end of period	664,960	$	21.21	94,592	$	18.67

Dividends related to the converted units from Pulaski are accrued and will be paid in cash upon vesting. All other recipients earn quarterly dividend equivalents on their respective units. These dividend equivalents are not paid out during the vesting period, but instead entitle the recipients to additional units. Therefore, dividends earned each quarter compound based upon the updated unit balances. Upon vesting/delivery, shares are expected (though not required) to be issued from treasury.

On January 25, 2017, under the terms of the 2010 Equity Incentive Plan, the Company granted 11,404 RSUs to a member of management. As the stock price on the grant date of January 25, 2017 was $30.69, total compensation cost to be recognized is $0.4 million. This cost will be recognized over a period of five years. Subsequent to the requisite service period, the award will vest 100%.

On June 13, 2017, under the terms of the 2010 Equity Incentive Plan, the Company granted 128,622 RSUs to executives and members of management. As the stock price on the grant date of June 13, 2017 was $30.33, total compensation cost to be recognized is $3.9 million. This cost will be recognized over a period of five years.   Subsequent to the requisite service period, the awards will vest 100%.

The Company recognized $0.6 million and $0.4 million of compensation expense related to non-vested stock units for the three months ended June 30, 2017 and 2016, respectively. The Company recognized $1.1 million and $0.8 million of compensation expense related to non-vested stock units for the six months ended June 30, 2017 and 2016, respectively.   As of June 30, 2017, there was $8.8 million of total unrecognized compensation cost related to these non-vested stock units. This cost is expected to be recognized over a period of 4.0 years.

Note 13: Income Taxes

At June 30, 2017, the Company was not under examination by any tax authority.

Note 14: Outstanding Commitments and Contingent Liabilities

Legal Matters

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

Credit Commitments and Contingencies

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

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

	June 30, 2017	December 31, 2016
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 953,244	$ 875,077

Standby letters of credit	19,168	20,145

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer s obligation to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions and primarily have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral, which may include accounts receivable, inventory, property and equipment, and income producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of June 30, 2017 and December 31, 2016, no amounts were recorded as liabilities for the Company s potential obligations under these guarantees.

Other Commitments

From time to time, the Company will sign contracts for construction projects relating to the Company s facilities.

Note 15: Capital

The ability of the Company to pay cash dividends to its stockholders and to service its debt was historically dependent on the receipt of cash dividends from its subsidiaries. Under applicable regulatory requirements, an Illinois state-chartered bank such as Busey Bank may not pay dividends in excess of its net profits. Because Busey Bank has been in a retained earnings deficit position since 2009, it has not been able to pay dividends since that time. With prior approval from its regulators, however, an Illinois state-chartered bank in this situation may be able to reduce its capital stock by amending its charter to decrease the authorized number of shares, and then make a subsequent distribution to its holding company. Using this approach, and with the approval of its regulators, Busey Bank has distributed funds to the Company, the most recent of which was $30.0 million on October 21, 2016. The Company expects to seek regulatory approval for additional capital distributions from Busey Bank in future periods.

The Company and Busey Bank are subject to regulatory capital requirements administered by federal and/or state agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulations to ensure capital adequacy require the Company and the bank to maintain minimum dollar amounts and ratios of such to risk weighted assets (as defined in the regulations and set forth in the table below) of total capital, Tier 1 capital and Common Equity Tier 1 capital, and for the bank, Tier 1 capital to average assets. Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, could have a direct material effect on our financial statements. The Company, as a financial holding company, is required to be well capitalized in the capital categories shown in the table below. As of June 30, 2017, the Company and Busey Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered well capitalized.

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

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rule required by the Dodd-Frank Act. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements, as well as to bank and savings and loan holding companies other than small bank holding companies (generally non-public bank holding companies with consolidated assets of less than $1.0 billion). The Basel III Rule not only increased most of the required minimum regulatory capital ratios, but they also introduced a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer.

The Basel III Rule also expanded the definition of capital as in effect currently by establishing criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that generally qualified as Tier 1 Capital under the old guidelines no longer qualify, or their qualifications will change, as the Basel III Rule is being fully implemented.

The Basel III Rule also permitted banking organizations with less than $15.0 billion in assets to retain, through a one-time election, the past treatment for accumulated other comprehensive income, which did not affect regulatory capital. First Busey and Busey Bank made this election in the first quarter of 2015 to avoid variations in the level of their capital depending on fluctuations in the fair value of their securities portfolio. The Basel III Rule maintained the general structure of the prompt corrective action framework, while incorporating increased requirements. The prompt corrective action guidelines were also revised to add the Common Equity Tier 1 Capital ratio. Under the final capital rules that became effective on January 1, 2015, there was a requirement for a Common Equity Tier 1 capital conservation buffer of 2.5% of risk weighted assets which is in addition to the other minimum risk based capital standards in the rule. Failure to maintain the buffer will result in restrictions on the Company s ability to make capital distributions, including the payment of dividends, and to pay discretionary bonuses to executive officers. The capital buffer requirement is being phased-in over three years beginning in 2016.

The table below includes the 1.25% increase as of January 1, 2017 in the minimum capital requirement ratios. The capital buffer requirement effectively raises the minimum required Common Equity Tier 1 Capital ratio to 7.0%, the Tier 1 Capital ratio to 8.5%, and the Total Capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. As of June 30, 2017, the Company and Busey Bank were in compliance with the current phase of the Basel III Rule and management believes that the Company and Busey Bank would meet all capital adequacy requirements under the Basel III Rule on a fully phased-in basis as if such requirements had been in effect *(dollars in thousands)*.

	Actual		Minimum Capital Requirement with Capital Buffer		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2017:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 685,626	16.18%	$ 391,865	9.25%	$ 423,638	10.00%
Busey Bank	$ 585,244	13.94%	$ 388,482	9.25%	$ 419,980	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 576,286	13.60%	$ 307,138	7.25%	$ 338,911	8.00%
Busey Bank	$ 535,904	12.76%	$ 304,486	7.25%	$ 335,984	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 502,286	11.86%	$ 243,592	5.75%	$ 275,365	6.50%
Busey Bank	$ 535,904	12.76%	$ 241,489	5.75%	$ 272,987	6.50%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 576,286	10.98%	$ 210,017	4.00%	N/A	N/A
Busey Bank	$ 535,904	10.25%	$ 209,036	4.00%	$ 261,295	5.00%

Note 16: Operating Segments and Related Information

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

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

The segment financial information provided below has been derived from the internal accounting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

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

	Goodwill		Total Assets	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Banking	$ 82,128	$ 82,128	$ 5,475,118	$ 5,369,669
Remittance Processing	8,992	8,992	33,256	32,379
Wealth Management	11,694	11,694	29,695	28,351
Other			(6,702)	(5,229)
Totals	$ 102,814	$ 102,814	$ 5,531,367	$ 5,425,170

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net interest income:				
Banking	$ 43,365	$ 38,349	$ 85,907	$ 66,561
Remittance Processing	15	14	29	28
Wealth Management	90	64	146	130
Other	(1,104)	(475)	(1,703)	(825)
Total net interest income	$ 42,366	$ 37,952	$ 84,379	$ 65,894
Non-interest income:				
Banking	$ 10,758	$ 10,930	$ 21,212	$ 18,720
Remittance Processing	3,005	2,896	6,029	5,936
Wealth Management	6,691	5,807	13,708	12,068
Other	(392)	(1,056)	(873)	(1,301)
Total non-interest income	$ 20,062	$ 18,577	$ 40,076	$ 35,423
Non-interest expense:				
Banking	$ 29,331	$ 28,963	$ 58,621	$ 48,939
Remittance Processing	2,174	2,157	4,286	4,447
Wealth Management	3,980	3,704	7,944	7,809
Other	1,283	1,524	3,536	2,841
Total non-interest expense	$ 36,768	$ 36,348	$ 74,387	$ 64,036
Income before income taxes:				
Banking	$ 24,292	$ 19,215	$ 47,498	$ 34,241
Remittance Processing	847	753	1,773	1,517
Wealth Management	2,801	2,168	5,910	4,390
Other	(2,780)	(3,055)	(6,113)	(4,967)
Total income before income taxes	$ 25,160	$ 19,081	$ 49,068	$ 35,181
Net income:				
Banking	$ 15,855	$ 12,423	$ 30,604	$ 22,126
Remittance Processing	508	451	1,062	908
Wealth Management	1,675	1,296	3,523	2,618
Other	(1,559)	(1,787)	(3,540)	(2,835)
Total net income	$ 16,479	$ 12,383	$ 31,649	$ 22,817

Note 17: Derivative Financial Instruments

The Company originates and purchases derivative financial instruments, including interest rate lock commitments issued to residential loan customers for loans that will be held for sale, forward sales commitments to sell residential mortgage loans to loan investors, interest rate swaps and foreign currency forward contracts. See Note 18: Fair Value Measurements for further discussion of the fair value measurement of such derivatives.

Interest Rate Lock Commitments. At June 30, 2017, the Company had issued $212.4 million of unexpired interest rate lock commitments to loan customers. Such interest rate lock commitments that meet the definition of derivative financial instruments under ASC Topic 815, Derivatives and Hedging, are carried at their fair values in other assets or other liabilities in the unaudited Consolidated Financial Statements, with changes in the fair values of the corresponding derivative financial assets or liabilities recorded as either a charge or credit to current earnings during the period in which the changes occurred.

Forward Sales Commitments. At June 30, 2017, the Company had issued $366.8 million of unexpired forward sales commitments to mortgage loan investors. Typically, the Company economically hedges mortgage loans held for sale and interest rate lock commitments issued to its residential loan customers related to loans that will be held for sale by obtaining corresponding best-efforts forward sales commitments with an investor to sell the loans at an agreed-upon price at the time the interest rate locks are issued to the customers. Forward sales commitments that meet the definition of derivative financial instruments under ASC Topic 815, Derivatives and Hedging, are carried at their fair values in other assets or other liabilities in the unaudited Consolidated Financial Statements. While such forward sales commitments generally served as an economic hedge to the mortgage loans held for sale and interest rate lock commitments, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred.

The fair values of derivative assets and liabilities related to interest rate lock commitments and forward sales commitments recorded in the Consolidated Balance Sheets are summarized as follows *(dollars in thousands)*:

	June 30, 2017	December 31, 2016
Fair value recorded in other assets	$ 2,074	$ 6,403
Fair value recorded in other liabilities	4,228	3,098

The gross gains and losses on derivative assets and liabilities related to interest rate lock commitments and forward sales commitments recorded in non-interest income and expense in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016 are summarized as follows *(dollars in thousands)*:

Three Months Ended June 30,		Six Months Ended June 30,	
2017	2016	2017	2016

Gross gains	$	4,942	$	8,271	$	8,807	$	8,271
Gross (losses)		(4,228)		(9,770)		(8,019)		(9,770)
Net gains (losses)	$	714	$	(1,499)	$	788	$	(1,499)

The impact of the net gains or losses on derivative financial instruments related to interest rate lock commitments issued to residential loan customers for loans that will be held for sale and forward sales commitments to sell residential mortgage loans to loan investors are almost entirely offset by a corresponding change in the fair value of loans held for sale.

Interest Rate Swaps. Beginning in the second quarter of 2017, the Company entered into interest rate swap contracts to manage the interest rate risk exposure associated with specific commercial loan relationships, at the time such loans were originated. With a notional value of $58.2 million at June 30, 2017 these contracts support variable rate, commercial loan relationships totaling $29.1 million. While these swap derivatives generally worked together as an economic interest rate hedge, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred.

The fair values of derivative assets and liabilities related to interest rate swaps recorded in the Consolidated Balance Sheets are summarized as follows *(dollars in thousands)*:

		June 30, 2017
Fair value recorded in other assets	$	301
Fair value recorded in other liabilities		301

The gross gains and losses on derivative assets and liabilities related to interest rate swaps recorded in non-interest income and expense in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2017 are summarized as follows *(dollars in thousands)*:

		June 30, 2017
Gross gains	$	301
Gross losses		(301)
Net gains (losses)		

First Busey had $0.6 million in cash pledged to secure its obligation under these contracts at June 30, 2017.

Foreign Currency Derivatives. The Company had originated certain loan agreements that settled in non-U.S. dollar denominations. At June 30, 2017, there were no outstanding gross balances of such loans. The Company had entered into foreign currency forward contracts to mitigate the economic effect of fluctuations in foreign currency exchange rates on non-U.S. dollar denominated loans, when balances were outstanding. While such forward contracts generally served as an economic hedge to certain loans, the Company did not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred. The gross gains and losses on these derivative assets and liabilities recorded in non-interest income and expense in the unaudited Consolidated Statements of Income for the three and six months ended June 30, 2017 was insignificant.

Note 18: Fair Value Measurements

The fair value of an asset or liability is the price that would be received by selling that asset or paid in transferring that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, Fair Value Measurement, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect the Company s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to those Company assets and liabilities that are carried at fair value.

There were no transfers between levels during the quarter ended June 30, 2017.

In general, fair value is based upon quoted market prices, when available. If such quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect, among other things, counterparty credit quality and the company s creditworthiness as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the Consolidated Balance Sheet date may differ significantly from the amounts presented herein.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing level 1 and level 2 measurements. For mutual funds and other equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date and have been classified as level 1 in ASC Topic 820. For all other securities, the Company obtains fair value measurements from an independent pricing service. The independent pricing service evaluations are based on market data. The independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed income securities do not trade on a daily basis, the independent pricing service applies available information as appropriate through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.

In addition, the independent pricing service uses model processes, such as the Option Adjusted Spread model, to assess interest rate impact and develop prepayment scenarios. The models and processes take into account market conventions. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

The market inputs that the independent pricing service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The independent pricing service also monitors market indicators, industry and economic events. Information of this nature is a trigger to acquire further market data. For certain security types, additional inputs may be used or some of the market inputs may not be applicable. Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on a given day. Because the data utilized was observable, the securities have been classified as level 2 in ASC Topic 820.

Loans held for sale. Loans held for sale are reported at fair value utilizing level 2 measurements. The fair value of the mortgage loans held for sale are measured using observable quoted market or contract prices or market price equivalents and are classified as level 2 in ASC Topic 820.

Derivative Assets and Derivative Liabilities. Derivative assets and derivative liabilities are reported at fair value utilizing level 2 measurements. Derivative instruments with positive fair values are reported as assets and derivative instruments with negative fair value are reported as liabilities. The fair value of derivative assets and liabilities is determined based on prices that are obtained from a third-party. Values of derivative assets and liabilities are primarily based on observable inputs and are classified as level 2 in ASC Topic 820.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value *(dollars in thousands)*:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2017				
Securities available for sale				
U.S. Treasury securities	$	$ 85,848	$	$ 85,848
Obligations of U.S. government corporations and agencies		66,775		66,775
Obligations of states and political subdivisions		143,353		143,353
Residential mortgage-backed securities		313,351		313,351
Corporate debt securities		31,994		31,994
Mutual funds and other equity securities	5,028			5,028
Loans				
Loans held for sale		168,415		168,415
Derivative assets				
Derivative financial assets		2,375		2,375
Derivative liabilities				
Derivative financial liabilities		4,529		4,529

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2016				
Securities available for sale				
U.S. Treasury securities	$	$ 74,944	$	$ 74,944
Obligations of U.S. government corporations and agencies		79,127		79,127
Obligations of states and political subdivisions		154,938		154,938
Residential mortgage-backed securities		302,249		302,249
Corporate debt securities		143,343		143,343
Mutual funds and other equity securities	5,210			5,210
Loans				
Loans held for sale		256,319		256,319
Derivative assets				
Derivative financial assets		6,403		6,403
Derivative liabilities				
Foreign currency forward contracts		7		7
Derivative financial liabilities		3,098		3,098

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired Loans. The Company does not record loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Impaired loans measured at fair value typically consist of loans on non-accrual status and restructured loans in compliance with modified terms. Collateral values are estimated using a combination of observable inputs, including recent appraisals, and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all impaired loan fair values have been classified as level 3 in ASC Topic 820.

OREO. Non-financial assets and non-financial liabilities measured at fair value include OREO (upon initial recognition or subsequent impairment). OREO properties are measured using a combination of observable inputs, including recent appraisals, and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all OREO fair values have been classified as level 3 in ASC Topic 820.

The following table summarizes assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value *(dollars in thousands)*:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2017				
Impaired loans	$	$	$ 3,396	$ 3,396
OREO(1)				
December 31, 2016				
Impaired loans	$	$	$ 3,885	$ 3,885
OREO(1)				

(1)OREO fair value was less than one thousand dollars.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized level 3 inputs to determine fair value *(dollars in thousands)*:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
June 30, 2017				
Impaired loans	$ 3,396	Appraisal of collateral	Appraisal adjustments	-20.3% to -100.0% (-36.4)%
OREO(1)		Appraisal of collateral	Appraisal adjustments	-100.0% (-100.0)%
December 31, 2016				
Impaired loans	$ 3,885	Appraisal of collateral	Appraisal adjustments	-19.2% to -100.0% (-38.4)%
OREO(1)		Appraisal of collateral	Appraisal adjustments	-100.0% (-100.0)%

(1)OREO fair value was less than one thousand dollars.

The estimated fair values of financial instruments that are reported at amortized cost in the Company s Consolidated Balance Sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value, were as follows *(dollars in thousands)*:

	June 30, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	$ 294,100	$ 294,100	$ 166,706	$ 166,706
Level 2 inputs:				
Securities held to maturity	208,634	209,003	47,820	47,683
Accrued interest receivable	14,419	14,419	15,562	15,562
Level 3 inputs:				
Portfolio loans, net	3,871,263	3,865,697	3,831,105	3,841,760
Mortgage servicing rights	2,806	8,575	3,074	7,803
Other servicing rights	186	683		
Financial liabilities:				
Level 2 inputs:				
Deposits	$ 4,394,212	$ 4,390,437	$ 4,374,298	$ 4,368,891
Securities sold under agreements to repurchase	178,597	178,597	189,157	189,157
Short-term borrowings	50,000	50,000	75,000	75,000
Long-term debt	80,000	80,000	80,000	80,000
Junior subordinated debt owed to unconsolidated trusts	70,938	70,938	70,868	70,868
Accrued interest payable	1,382	1,382	987	987
Level 3 inputs:				
Senior notes, net of unamortized issuance costs	39,351	39,360		
Subordinated notes, net of unamortized issuance costs	59,022	59,066		

ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 or is described below.

The fair value of other servicing rights relates to servicing that First Busy provides on Small Business Association loans and is estimated by discounting the future cash flows and classified as level 3 in ASC Topic 820. The fair value of senior and subordinated notes, net of unamortized issuance costs, is estimated based on the rates currently available to the Company with similar terms, remaining maturity and credit spread and classified as level 3 in ASC Topic 820.

Note 19: Liability for Loans Sold

The Company records an estimated liability for probable amounts due to the Company s loan investors under contractual obligations related to residential mortgage loans originated for sale that were previously sold and became delinquent or defaulted, or were determined to contain certain documentation or other underwriting deficiencies. Under standard representations and warranties and early payment default clauses in the Company s mortgage sale agreements, the Company could be required to repurchase mortgage loans sold to investors or reimburse the investors for losses incurred on loans in the event of borrower default within a defined period after origination (generally 90 days), or in the event of breaches of contractual representations or warranties made at the time of sale that are not remedied within a defined period after the Company receives notice of such breaches (generally 90 days). In addition, the Company may be required to refund the profit received from the sale of a loan to an investor if the borrower pays off the loan within a defined period after origination, which is generally 120 days.

The Company establishes a mortgage repurchase liability related to these events that reflects management s estimate of losses on loans for which the Company could have a repurchase obligation based on a combination of factors. Such factors incorporate the volume of loans sold in current and previous periods, borrower default expectations, historical investor repurchase demand and appeals success rates (where the investor rescinds the demand based on a cure of the defect or acknowledges that the loan satisfies the investor s applicable representations and warranties), and estimated loss severity. Payments made to investors as reimbursement for losses incurred are charged against the mortgage repurchase liability. Loans repurchased from investors are initially recorded at fair value, which becomes the Company s new accounting basis. The difference between the loan s fair value and the payment made to investors as reimbursement for losses incurred is charged to the mortgage repurchase liability. Subsequent to repurchase, such loans are carried as portfolio loans on the Company s Consolidated Balance Sheets. Loans repurchased with deteriorated credit quality at the date of repurchase are accounted for under ASC 310-30.

The liability for loans sold of $2.1 million at June 30, 2017 represents the Company s best estimate of the probable losses that the Company will incur for various early default provisions and contractual representations and warranties associated with the sales of mortgage loans and is included in other liabilities in the accompanying Consolidated Balance Sheets. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. In addition, the Company generally does not service the loans that it sells to investors and is generally unable to track the remaining unpaid balances or delinquency status after sale. As a result, there may be a range of possible losses in excess of the estimated liability that cannot be estimated. Management maintains regular contact with the Company s investors to monitor and address their repurchase demand practices and concerns.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of the financial condition of First Busey Corporation and its subsidiaries (referred to herein as First Busey, Company, we, or our) at June 30, 2017 (unaudited), as compared with March 31, 2017 (unaudited), December 31, 2016 and June 30, 2016 (unaudited), and the results of operations for the three and six months ended June 30, 2017 (unaudited) and 2016 (unaudited), and the three months ended March 31, 2017 (unaudited) when applicable. Management s discussion and analysis should be read in conjunction with the Company s consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report, as well as the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

EXECUTIVE SUMMARY

Acquisitions

During the first quarter of 2017, First Busey announced the signing of two definitive agreements to acquire First Community, headquartered in Joliet, Illinois, and Mid Illinois, headquartered in Peoria, Illinois. On July 2, 2017, the Company completed its acquisition of First Community. The First Community acquisition is a subsequent event and the financial results of First Community are not recognized in this Form 10-Q. The acquisition of First Community allows us to significantly expand our geographic presence into attractive southwest suburbs of Chicago. The planned acquisition of Mid Illinois will enhance the Company s existing deposit, commercial banking and trust and investment presence in the greater Peoria area, and is expected to close in the fourth quarter of 2017, subject to customary closing conditions.

Operating Results

First Busey s net income for the second quarter of 2017 was $16.5 million, or $0.43 per diluted common share. The Company reported net income of $15.2 million or $0.39 per diluted common share for the first quarter of 2017 and net income of $12.4 million or $0.35 per diluted common share for the second quarter of 2016. The Company s year-to-date net income through June 30, 2017 was $31.6 million, or $0.82 per diluted common share, compared to net income of $22.8 million or $0.71 per diluted common share, for the comparable period of 2016. The results benefited from the acquisition of Pulaski since the closing of the transaction on April 30, 2016.

During the second quarter of 2017, the Company incurred $0.3 million of pre-tax expenses related to acquisitions compared to $2.0 million in the second quarter of 2016, which primarily consisted of legal, professional, and data processing expenses. During the six months ended June 30, 2017, the Company incurred $1.1 million of pre-tax acquisition related costs compared to $2.3 million in the same period of 2016. Additional notable pre-tax items incurred by the Company during the first six months of 2017 included $0.2 million of restructuring costs. Excluding these items, the Company s operating earnings, a non-GAAP financial measure, for the second quarter of 2017 would have been $16.7 million, or $0.43 per diluted common share and $32.5 million or $0.84 per diluted common share for the year-to-date net income through June 30, 2017.

Revenues from trust fees, commissions and brokers fees, and remittance processing activities represented 47.0% of the Company s non-interest income for the quarter ended June 30, 2017, providing a balance to revenue from traditional banking activities.

Trust fees and commissions and brokers fees of $6.6 million for the second quarter of 2017 decreased seasonally from $6.9 million for the first quarter of 2017 and increased from $5.7 million for the second quarter of 2016. Trust fees and commissions and brokers fees grew to $13.5 million for the first six months of 2017 compared to $11.9 million for the same period of 2016. Net income from the wealth management segment decreased to $1.7 million for the second quarter of 2017 compared to $1.8 million for the first quarter of 2017, but increased from $1.3 million for the second quarter of 2016. Net income from the wealth management segment increased to $3.5 million for the first six months of 2017 compared to $2.6 million for the same period of 2016, a notable 34.6% increase.

Remittance processing revenue increased slightly to $2.9 million for the second quarter of 2017 compared to $2.8 million for both the first quarter of 2017 and second quarter of 2016. For the first six months of 2017, remittance processing revenue remained relatively stable at $5.7 million compared to $5.8 million for the same period of 2016. Net income from the remittance processing segment was $0.5 million for the second quarter of 2017 a modest decrease from $0.6 million in the first quarter of 2017 but comparable to the $0.5 million in second quarter of 2016. Net income from the remittance processing segment was $1.1 million for the six months ended June 30, 2017 compared to $0.9 million for the six months ended June 30, 2016.

Mortgage revenues slowed significantly in 2017 and balances of loans held for sale trended below prior year. Active cost reduction efforts have been underway, including effective employee management.

Commercial loans and non-interest bearing deposits continue as drivers of balance sheet growth, while net income in the banking, remittance processing and wealth management segments expanded on a comparative basis to prior year. Credit metrics were also positive, with net recoveries recorded to the allowance for loan losses that drove lower provision expense, and gains in OREO, all indicators of ongoing balance sheet strength.

Asset Quality

While much internal focus has been directed toward growth and managing the integration of its recent acquisitions, the Company s commitment to credit quality remains strong. As of June 30, 2017, the Company reported a decrease in non-performing loans to $20.1 million compared to $20.9 million as of March 31, 2017 and $22.8 million as of June 30, 2016. Non-performing loans were 0.5% of total portfolio loans as of June 30, 2017 and March 31, 2017, compared to 0.6% as of June 30, 2016.

The Company recorded net recoveries of $0.3 million for the second quarter of 2017, compared to net recoveries of $0.1 million for the first quarter of 2017 and net charge-offs of $0.9 million for the second quarter of 2016. The Company recorded net recoveries of $0.4 million for the first six months of 2017, a decrease from the net charge-offs of $4.2 million for the same period of 2016. Allowance for loan losses as a percentage of portfolio loans was 1.3% at June 30, 2017 and March 31, 2017, an increase from 1.2% at June 30, 2016. As a result of acquisitions, the Company is holding acquired loans that are carried net of a fair value adjustment for credit and interest rate marks and are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. The Company recorded a provision for loan losses of $0.5 million in the second and first quarter of 2017 and $1.1 million in the second quarter of 2016. The Company recorded provision for loan losses of $1.0 million for the first six months of 2017, a decrease from $2.1 million for the same period of 2016.

With a continued commitment to asset quality and the strength of our Consolidated Balance Sheets, near-term loan losses are expected to remain generally low. While these results are encouraging, asset quality metrics can be generally influenced by market specific economic conditions, and specific measures may fluctuate from period to period.

The key metrics are as follows *(dollars in thousands):*

	As of and for the Three Months Ended			
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**June 30, 2016**
Portfolio loans	$ 3,920,464	$ 3,872,952	$ 3,878,900	$ 3,780,966
Commercial loans(1)	2,828,261	2,799,193	2,796,130	2,685,933
Allowance for loan losses	49,201	48,442	47,795	45,358
Non-performing loans				
Non-accrual loans	18,935	20,544	21,423	22,443
Loans 90+ days past due	1,123	311	131	334
Loans 30-89 days past due	6,953	9,804	4,090	9,754
Other non-performing assets	480	739	2,518	3,267
	0.5%	0.6%	0.6%	0.7%

Non-performing assets to portfolio loans and non-performing assets				
Allowance as a percentage of non-performing loans	245.3%	232.3%	221.7%	199.1%
Allowance for loan losses to portfolio loans	1.3%	1.3%	1.2%	1.2%

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(1)Includes loans categorized as commercial, commercial real estate and real estate construction.

Economic Conditions of Markets

As of June 30, 2017 the Company had 28 banking centers serving Illinois. Our downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, well-recognized and stable organizations. Champaign County is home to the University of Illinois Urbana/Champaign (U of I), the University s primary campus. U of I has in excess of 44,000 students. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is home to the North American headquarters for Archer Daniels Midland (ADM), a Fortune 100 company and one of the largest agricultural processors in the world. ADM s presence in Macon County supports many derivative businesses in the agricultural processing arena. Additionally, Macon County is home to Millikin University, and its healthcare providers serve a significant role in the market. McLean County is home to State Farm, Country Financial, Illinois State University and Illinois Wesleyan University. State Farm, a Fortune 100 company, is the largest employer in McLean County, and Country Financial and the universities provide additional stability to a growing area of downstate Illinois. Peoria County is home to Caterpillar Inc. operations, a Fortune 100 company, and Bradley University, in addition to a large healthcare presence serving much of the western portion of downstate Illinois. The institutions noted above, coupled with a large agricultural sector, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

The July 2, 2017 acquisition of First Community adds nine additional Illinois banking centers. This acquisition provides First Busey entrance into the demographically and economically attractive southwest suburban markets of the greater Chicagoland area and is part of the Company s strategy of expanding into markets with both population and commercial density in the Midwest.

The State of Illinois, where a large portion of the Company s customer base is located, continues to be one of the most troubled of any state in the United States with pension under-funding, continued budget deficits and a declining credit outlook. Additionally, the Company is located in markets with significant universities and healthcare companies, which rely heavily on state funding and contracts. Payment lapses by the State of Illinois to its vendors and government sponsored entities may have negative effects on our primary market areas.

The acquisition of Pulaski expanded our presence into the St. Louis, Missouri metropolitan area, which is the largest metropolitan area in Missouri and the twentieth largest in the United States. The bi-state metropolitan area includes seven counties in Missouri and eight counties in Illinois. The area is home to 17 Fortune 1000 companies, including Express Scripts, Emerson Electric, Centene and Monsanto. St. Louis has a diverse economy with its major employment sectors including health care, financial services, professional and business services, and retail. The Company has 13 banking centers serving the St. Louis metropolitan area, all of which are located in the city of St. Louis, or the adjacent counties of St. Louis County and St. Charles County. St. Charles County has been one of the fastest-growing counties in the country for decades. The county features a cross-section of industry, as well as extensive retail and some agriculture. The Company s geographic concentration in only three of the 15 counties included in the St. Louis metropolitan area gives the Company tremendous expansion opportunities into neighboring counties.

The Company has five banking centers in southwest Florida. Southwest Florida has shown continuing signs of improvement in areas such as job growth and the housing market over the last several years.

The Company has one banking center in the Indianapolis, Indiana area, which is the most populous city of Indiana with a diverse economy. Many large corporations are headquartered in Indianapolis and it is host to numerous conventions and sporting events annually. In 2017, the Company is working to expand its presence in Indianapolis.

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OPERATING PERFORMANCE

Net interest income

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percent of average earning assets.

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 35%. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax favorable assets. After factoring in the tax favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

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

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

	2017			2016			Change in income/ expense due to(1)		
	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Volume	Average Yield/Rate	Total Change
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits and federal funds sold	$ 182,562	$ 454	1.00%	$ 316,726	$ 371	0.47%	$ (204)	$ 287	$ 83
Investment securities									
U.S. Government obligations	144,653	487	1.35%	199,387	565	1.14%	(172)	94	(78)
Obligations of states and political subdivisions(1)	186,547	1,411	3.03%	213,611	1,534	2.89%	(199)	76	(123)
Other securities	480,064	2,811	2.35%	437,793	2,298	2.11%	237	276	513
Loans held for sale	104,420	1,000	3.84%	134,028	1,352	4.06%	(284)	(68)	(352)
Portfolio loans(1)(2)	3,892,327	40,608	4.18%	3,377,087	35,132	4.18%	5,472	4	5,476
Total interest-earning assets(1)(3)	$ 4,990,573	$ 46,771	3.76%	$ 4,678,632	$ 41,252	3.55%	$ 4,850	$ 669	$ 5,519
Cash and due from banks	75,959			73,073					
Premises and equipment	78,728			75,052					
Allowance for loan losses	(49,260)			(47,347)					
Other assets	265,074			241,915					
Total Assets	$ 5,361,074			$ 5,021,325					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 1,021,986	$ 333	0.13%	$ 804,033	$ 182	0.09%	$ 58	$ 93	$ 151
Savings and money market deposits	1,493,040	678	0.18%	1,501,351	567	0.15%	(13)	124	111
Time deposits	743,308	1,152	0.62%	763,774	1,043	0.55%	(28)	137	109
Short-term borrowings:									
Repurchase agreements and federal funds purchased	176,735	204	0.46%	178,826	90	0.20%	(1)	115	114
Other(4)	2,198	27	4.93%	133,668	185	0.56%	(342)	184	(158)
Long-term debt(5)	120,141	628	2.10%	80,000	57	0.29%	42	529	571
Junior subordinated debt owed to unconsolidated trusts	70,904	621	3.51%	65,407	462	2.84%	42	117	159
Total interest-bearing liabilities	$ 3,628,312	$ 3,643	0.40%	$ 3,527,059	$ 2,586	0.29%	$ (242)	$ 1,299	$ 1,057
Net interest spread(1)			3.36%			3.26%			
Noninterest-bearing deposits	1,091,696			942,553					
Other liabilities	36,178			38,840					
Stockholders equity	604,888			512,873					
Total Liabilities and Stockholders Equity	$ 5,361,074			$ 5,021,325					
	$ 4,990,573	$ 46,771	3.76%	$ 4,678,632	$ 41,252	3.55%			

Interest income / earning assets(1)(3)									
Interest expense / earning assets	$ 4,990,573	$ 3,643	0.29%	$ 4,678,632	$ 2,586	0.23%			
Net interest margin(1)		$ 43,128	3.47%		$ 38,666	3.32%	$ 5,092	$ (630)	$ 4,462

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(1) On a tax-equivalent basis assuming a federal income tax rate of 35%.

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

(3) Interest income includes a tax-equivalent adjustment of $0.8 million for the three months ended June 30, 2017 and 2016, respectively.

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

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

(6) Annualized.

CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES

SIX MONTHS ENDED JUNE 30, 2017 AND 2016 (UNAUDITED)

	2017			2016			Change in income/ expense due to(1)		
	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Balance	Income/ Expense	Yield/ Rate(6)	Average Volume	Average Yield/Rate	Total Change
				(dollars in thousands)					
Assets									
Interest-bearing bank deposits and federal funds sold	$ 137,826	$ 632	0.92%	$ 278,988	$ 671	0.48%	$ (448)	$ 409	$ (39)
Investment securities									
U.S. Government obligations	145,922	940	1.30%	196,323	1,114	1.14%	(313)	139	(174)
Obligations of states and political subdivisions(1)	190,803	2,843	3.00%	216,768	3,069	2.85%	(386)	160	(226)
Other securities	474,034	5,469	2.33%	442,478	4,708	2.14%	342	419	761
Loans held for sale	121,546	2,238	3.71%	70,068	1,383	3.97%	950	(95)	855
Portfolio loans(1)(2)	3,877,215	80,289	4.18%	2,980,405	60,368	4.07%	18,381	1,540	19,921
Total interest-earning assets(1)(3)	$ 4,947,346	$ 92,411	3.77%	$ 4,185,030	$ 71,313	3.43%	$ 18,526	$ 2,572	$ 21,098
Cash and due from banks	77,516			66,246					
Premises and equipment	78,505			69,148					
Allowance for loan losses	(48,986)			(47,475)					
Other assets	271,342			191,133					
Total Assets	$ 5,325,723			$ 4,464,082					
Liabilities and Stockholders Equity									
Interest-bearing transaction deposits	$ 1,019,185	$ 613	0.12%	$ 773,504	$ 297	0.08%	$ 113	$ 203	$ 316
Savings and money market deposits	1,474,562	1,256	0.17%	1,371,709	1,013	0.15%	63	180	243
Time deposits	760,829	2,338	0.62%	606,785	1,589	0.53%	442	307	749
Short-term borrowings:									
Repurchase agreements and federal funds purchased	171,290	327	0.38%	171,270	172	0.20%		155	155
Other(4)	11,188	74	1.33%	66,834	198	0.60%	(246)	122	(124)
Long-term debt(5)	100,181	741	1.49%	80,000	100	0.25%	31	610	641
Junior subordinated debt owed to unconsolidated trusts	70,887	1,208	3.44%	60,203	799	2.67%	156	253	409
Total interest-bearing liabilities	$ 3,608,122	$ 6,557	0.37%	$ 3,130,305	$ 4,168	0.27%	$ 559	$ 1,830	$ 2,389
Net interest spread(1)			3.40%			3.16%			
Noninterest-bearing deposits	1,079,405			855,412					
Other liabilities	38,020			33,574					
Stockholders equity	600,176			444,791					
Total Liabilities and Stockholders Equity	$ 5,325,723			$ 4,464,082					
	$ 4,947,346	$ 92,411	3.77%	$ 4,185,030	$ 71,313	3.43%			

Interest income / earning assets(1)(3)																
Interest expense / earning assets	$	4,947,346	$	6,557	0.27%	$	4,185,030	$	4,168	0.20%						
Net interest margin(1)			$	85,854	3.50%			$	67,145	3.23%	$	17,967	$	742	$	18,709

(1) On a tax-equivalent basis assuming a federal income tax rate of 35%.

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

(3) Interest income includes a tax-equivalent adjustment of $1.5 million and $1.3 million at June 30, 2017 and 2016, respectively.

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

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

(6) Annualized.

Consolidated Average Balance Sheets and interest rates were impacted by the April 30, 2016 Pulaski acquisition. Total average interest-earning assets increased $311.9 million, or 6.7%, to $5.0 billion for the three month period ended June 30, 2017, as compared to $4.7 billion for the same period in 2016. Total average interest-earning assets increased $762.3 million, or 18.2%, to $4.9 billion for the six month period ended June 30, 2017, as compared to $4.2 billion for the same period in 2016. Total average interest-bearing liability balances increased $101.3 million, or 2.9%, to $3.6 billion for the three month period ended June 30, 2017, as compared to $3.5 billion for the same period in 2016. Total average interest-bearing liability balances increased $477.8 million, or 15.3%, to $3.6 billion for the six month period ended June 30, 2017, as compared to $3.1 billion for the same period in 2016.

Net interest income, on a tax-equivalent basis, increased $4.5 million for the three month period ended June 30, 2017, as compared to the same period of 2016. Net interest income, on a tax-equivalent basis, increased $18.7 million for the six month period ended June 30, 2017, as compared to the same period of 2016. The Federal Open Market Committee announced on March 15, 2017 that the federal funds rate increased from 0.75% to 1.00%, and then announced another rate increase on June 15, 2017 from 1.00% to 1.25%. The Company expects these increases in interest rates to be modestly favorable to net interest income in 2017. However, rising interest rates could result in decreased demand for first mortgages as well as mortgage refinancing, activities which contribute to a portion of the Company s mortgage revenue.

Net interest margin

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, increased to 3.47% for the three month period ended June 30, 2017, compared to 3.32% for the same period in 2016 and increased to 3.50% for the six month period ended June 30, 2017 compared to 3.23% for the same period in 2016.

Quarterly net interest margins were as follows:

	2017	2016
First Quarter	3.53%	3.10%
Second Quarter	3.47%	3.32%
Third Quarter		3.51%
Fourth Quarter		3.63%

The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, also on a tax-equivalent basis, was 3.36% for the three month period ended June 30, 2017, compared to 3.26% for the same period in 2016 and was 3.40% for the six month period ended June 30, 2017, compared to 3.16% for the same period in 2016.

Management attempts to mitigate the effects of the interest rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Please refer to the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2016 for accounting policies underlying the recognition of interest income and expense.

Non-interest income (*dollars in thousands*):

Three Months Ended June 30,	Six Months Ended June 30,

	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Trust fees	$ 5,827	$ 5,045	$ 782	15.5%	$ 12,017	$ 10,592	$ 1,425	13.5%
Commissions and brokers fees, net	751	687	64	9.3%	1,473	1,355	118	8.7%
Remittance processing	2,859	2,830	29	1.0%	5,704	5,755	(51)	(0.9)%
Fees for customer services	6,095	5,873	222	3.8%	12,081	10,579	1,502	14.2%
Mortgage revenue	2,770	3,369	(599)	(17.8)%	4,904	4,249	655	15.4%
Security (losses) gains, net	(4)	152	(156)	(102.6)%	853	1,219	(366)	(30.0)%
Other income	1,764	621	1,143	184.1%	3,044	1,674	1,370	81.8%
Total non-interest income	$ 20,062	$ 18,577	$ 1,485	8.0%	$ 40,076	$ 35,423	$ 4,653	13.1%

Total non-interest income of $20.1 million for the three month period ended June 30, 2017 increased by 8.0% as compared to $18.6 million for the same period in 2016. Total non-interest income of $40.1 million for the six month period ended June 30, 2017 increased by 13.1% as compared to $35.4 million for the same period in 2016. Results were impacted by the April 30, 2016 Pulaski acquisition.

Combined Wealth Management revenue, consisting of trust fees and commissions and brokers   fees, net, increased to $6.6 million for the three months ended June 30, 2017 compared to $5.7 million for the three months ended June 30, 2016 and increased to $13.5 million for the six months ended June 30, 2017 compared to $11.9 million for the six months ended June 30, 2016. As Pulaski and First Community had no legacy trust fee income, the addition of this service offering in their markets is expected to provide attractive growth opportunities in future periods.

Remittance processing revenue of $2.9 million for the three months ended June 30, 2017 increased slightly compared to $2.8 million for the same period of 2016. For the first six months of 2017, remittance processing revenue remained relatively stable at $5.7 million compared to $5.8 million for the same period of 2016. Remittance processing adds important diversity to our revenue stream while widening our array of service offerings to larger commercial clients within our footprint and nationally.

Fees for customer services increased to $6.1 million for the three month period ended June 30, 2017 as compared to $5.9 million for the same period of 2016 and increased to $12.1 million for the six month period ended June 30, 2017 as compared to $10.6 million for the same period of 2016. Evolving regulation, product changes and changing behaviors by our client base may impact the fees for customer services in future periods.

Mortgage revenue decreased to $2.8 million for the three month period ended June 30, 2017 compared to $3.4 million for the same period of 2016. Mortgage revenue increased to $4.9 million for the six month period ended June 30, 2017 compared to $4.2 million for the same period of 2016. The Company has historically held a leading position in its primary residential loan markets in Central Illinois, while the operations acquired from Pulaski have been ranked among the top residential mortgage loan producers in the St. Louis and Kansas City markets. Results for the first six months of 2017 were influenced by an increase in mortgage rates and associated costs, as well as declines in purchase inventory.

Security (losses) gains, net, decreased for the three and six month periods ended June 30, 2017 compared to the same period of 2016. Security (losses) gains, net, vary based on the Company s decisions around selling securities. In the first quarter of 2017, the Company sold 100% risk weighted investments and reinvested in 20% risk weighted investments at higher yields to produce higher future returns.

Other income increased to $1.8 million for the three month period ended June 30, 2017 as compared to $0.6 million for the same period of 2016 and increased to $3.0 million for the six month period ended June 30, 2017 as compared to $1.7 million for the same period of 2016. The other income increase is across multiple revenue sources, with swap origination fee income and fluctuations in private equity investments driving the increase.

Non-interest expense (*dollars in thousands*):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
	$ 20,061	$ 18,493	$ 1,568	8.5%	$ 41,951	$ 33,859	$ 8,092	23.9%

Salaries, wages and employee benefits								
Net occupancy expense of premises	3,126	2,732	394	14.4%	6,311	4,899	1,412	28.8%
Furniture and equipment expenses	1,719	1,644	75	4.6%	3,338	2,728	610	22.4%
Data processing	3,939	5,015	(1,076)	(21.5)%	7,537	8,247	(710)	(8.6)%
Amortization of intangible assets	1,182	1,109	73	6.6%	2,389	1,875	514	27.4%
Regulatory expense	433	884	(451)	(51.0)%	1,025	1,472	(447)	(30.4)%
Other expense	6,308	6,471	(163)	(2.5)%	11,836	10,956	880	8.0%
Total non-interest expense	$ 36,768	$ 36,348	$ 420	1.2%	$ 74,387	$ 64,036	$ 10,351	16.2%
Income taxes	$ 8,681	$ 6,698	$ 1,983	29.6%	$ 17,419	$ 12,364	$ 5,055	40.9%
Effective rate on income taxes	34.5%	35.1%			35.5%	35.1%		
Efficiency ratio	56.3%	61.7%			57.6%	60.3%		
Full-time equivalent employees as of period-end	1,238	1,326						

Total non-interest expense of $36.8 million for the three month period ended June 30, 2017 slightly increased as compared to $36.3 million for the same period in 2016. Total non-interest expense of $74.4 million for the six month period ended June 30, 2017 increased as compared to $64.0 million for the same period in 2016. Acquisition expenses relating to the acquisition of First Community and planned acquisition of Mid Illinois have impacted and are expected to continue to impact non-interest expense throughout 2017, while acquisition expenses related to the Pulaski acquisition impacted 2016.

Salaries, wages and employee benefits expense of $20.1 million increased $1.6 million for the three month period ended June 30, 2017 as compared to the same period in 2016 and increased $8.1 million, to $42.0 million, for the six month period ended June 30, 2017 as compared to the same period of 2016, as a result of the Pulaski acquisition during the second quarter of 2016.

Combined net occupancy expense of premises and furniture and equipment expenses of $4.8 million and $9.6 million for the three and six month periods ended June 30, 2017, respectively, increased compared to the same periods in 2016. The Pulaski acquisition added 13 banking centers and several loan production offices. We continue to evaluate our branch network and operations for appropriate cost control measures while seeking improvements in service delivery to our customers. The July 2, 2017 acquisition with First Community added nine additional Illinois banking centers.

Data processing expense for the three month period ended June 30, 2017 of $3.9 million decreased from $5.0 million for the same period of 2016. Data processing expense for the six month period ended June 30, 2017 of $7.5 million decreased from $8.2 million for the same period of 2016. Higher data processing expense in 2016 primarily related to software conversion expenses in connection with the Pulaski acquisition.

Amortization of intangible assets increased for the three and six month periods ended June 30, 2017 compared to the same periods in 2016 as a result of the Pulaski acquisition. Amortization of intangible assets is expected to increase in future periods related to the First Community acquisition and planned Mid Illinois acquisition.

Regulatory expense decreased 51.0% and 30.4% for the three and six month periods ended June 30, 2017, respectively, compared to the same period in 2016.

Other expense of $6.3 million for the three month period ended June 30, 2017 decreased $0.2 million compared to the same period in 2016. Other expense of $11.8 million for the six month period ended June 30, 2017 increased $0.9 million compared to the same period in 2016 across multiple expense categories.

The effective rate on income taxes, or income taxes divided by income before taxes, of 34.5% and 35.5% for the three and six months ended June 30, 2017, respectively, was lower than the combined federal and state statutory rate of approximately 40% due to tax preferred interest income, such as municipal bond interest and bank owned life insurance income, accounting for a portion of our taxable income. As taxable income increases, we expect our effective tax rate to increase. The Company continues to monitor evolving federal and state tax legislation and its potential impact on operations on an ongoing basis. Effective July 1, 2017, the combined Illinois corporate income tax rate and replacement tax rate increased from 7.75% to 9.50%, which will have an impact on the Company s tax expense in future periods.

The efficiency ratio represents total non-interest expense, less amortization charges, as a percentage of tax-equivalent net interest income plus non-interest income, less security gains and losses. The efficiency ratio, which is a non-GAAP financial measure commonly used by management and the investment community in the banking industry, measures the amount of expense that is incurred to generate a dollar of revenue. The efficiency ratio of 56.3% for the three month period ended June 30, 2017 improved from 61.7% in the comparable period in 2016 and the efficiency ratio of 57.6% for the six month period ended June 30, 2017 improved from 60.3% in the comparable period in 2016. Expenses relating to the First Community acquisition and planned Mid Illinois acquisition may have a negative impact on the efficiency ratio for the remainder of 2017; however, the Company expects to realize operating efficiencies creating a positive impact in future years. We will continue to examine appropriate avenues to improve efficiency.

FINANCIAL CONDITION

Significant Consolidated Balance Sheet items *(dollars in thousands)*:

	June 30, 2017	December 31, 2016	$ Change	% Change
Assets				
Securities available for sale	$ 646,349	$ 759,811	$ (113,462)	(14.9)%
Securities held to maturity	208,634	47,820	160,814	336.3%
Loans held for sale	168,415	256,319	(87,904)	(34.3)%
Portfolio loans, net	3,871,263	3,831,105	40,158	1.0%
Total assets	$ 5,531,367	$ 5,425,170	$ 106,197	2.0%
Liabilities				
Deposits:				
Noninterest-bearing	$ 1,105,041	$ 1,134,133	$ (29,092)	(2.6)%
Interest-bearing	3,289,171	3,240,165	49,006	1.5%
Total deposits	$ 4,394,212	$ 4,374,298	$ 19,914	0.5%
Securities sold under agreements to repurchase	$ 178,597	$ 189,157	$ (10,560)	(5.6)%
Short-term borrowings	50,000	75,000	(25,000)	(33.3)%
Long-term debt	80,000	80,000		%
Senior notes, net of unamortized issuance costs	39,351		39,351	100.0%
Subordinated notes, net of unamortized issuance costs	59,022		59,022	100.0%
Junior subordinated debt owed to unconsolidated trusts	70,938	70,868	70	0.1%
Total liabilities	$ 4,918,252	$ 4,830,856	$ 87,396	1.8%
Stockholders equity	$ 613,115	$ 594,314	$ 18,801	3.2%

Our priorities continue to focus around balance sheet strength, profitability and growth, in that order.

On May 25, 2017, the Company completed an offering of $40.0 million of 3.75% senior notes due May 25, 2022 and $60.0 million of 4.75% fixed-to-floating rate subordinated notes due May 25, 2027. The Company used the net proceeds from the offering to finance a portion of the consideration for its acquisition of First Community and to redeem a portion of First Community s subordinated debentures in July 2017, and intends to use a portion to finance the planned acquisition of Mid Illinois, with the remaining proceeds to be used for general corporate purposes. Notably, the pricing was relatively favorable to other long-term debt issuances by community banks with similar credit profiles.

With our strong capital position, an attractive core funding base, a sound credit foundation, and an active growth plan, we are well positioned for the second half of 2017. New partnerships with talented bankers in St. Louis, Peoria and the Chicagoland area bring an expanding pool of business opportunities to generate value and diversity across new markets.

Loans Held for Sale

The Company originates conforming, residential mortgage loans directly through commission-based sales staffs in its market areas and through mortgage loan application leads purchased from internet-based sources. Loans held for sale totaled $168.4 million and $256.3 million at June 30, 2017 and December 31, 2016, respectively. The amount of loans held for sale decreased from December 31, 2016, due to lower origination volumes in 2017 driven by market influences. The Company has historically held a leading position in its primary residential loan markets in Central Illinois, while the operations acquired from Pulaski have been ranked among the top residential mortgage loan producers in the St. Louis and Kansas City markets. Loans held for sale generate net interest income until loans are delivered to investors, at which point mortgage revenue will be recognized.

Portfolio Loans

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

	June 30, 2017				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	$ 554,507	$ 355,982	$ 18,476	$ 29,674	$ 958,639
Commercial real estate	865,910	523,655	145,517	152,628	1,687,710
Real estate construction	28,416	74,616	19,365	59,515	181,912
Retail real estate	465,336	498,267	99,375	17,073	1,080,051
Retail other	10,686	597	869		12,152
Portfolio loans	$ 1,924,855	$ 1,453,117	$ 283,602	$ 258,890	$ 3,920,464
Less allowance for loan losses					49,201
Portfolio loans, net					$ 3,871,263

	December 31, 2016				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	$ 565,853	$ 346,204	$ 19,207	$ 28,624	$ 959,888
Commercial real estate	878,018	470,126	150,940	155,080	1,654,164
Real estate construction	53,142	71,430	12,789	44,717	182,078
Retail real estate	479,026	468,212	105,620	16,202	1,069,060
Retail other	12,250	565	895		13,710
Portfolio loans	$ 1,988,289	$ 1,356,537	$ 289,451	$ 244,623	$ 3,878,900
Less allowance for loan losses					47,795
Portfolio loans, net					$ 3,831,105

Portfolio loans increased $41.6 million, or 1.1%, as of June 30, 2017 compared to December 31, 2016. Commercial balances (consisting of commercial, commercial real estate and real estate construction loans) increased $32.1 million from December 31, 2016. Retail real estate and retail other loans increased $9.5 million from December 31, 2016. Relationship banking, rather than transactional banking, remains a focus for the Company during 2017. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship.

Allowance for Loan Losses

Our allowance for loan losses was $49.2 million, or 1.3% of portfolio loans, and $47.8 million, or 1.2% of portfolio loans, at June 30, 2017 and December 31, 2016, respectively.

Typically, when we move loans into non-accrual status, the loans are collateral dependent and charged down through the allowance for loan losses to the fair value of our interest in the underlying collateral less estimated costs to sell. Our loan portfolio is collateralized primarily by real estate.

As of June 30, 2017, management believed the level of the allowance and coverage of non-performing loans to be appropriate based upon the information available. However, additional losses may be identified in our loan portfolio as new information is obtained. We may need to provide for additional loan losses in the future as management continues to identify potential problem loans and gains further information concerning existing problem loans.

Provision for Loan Losses

The provision for loan losses is a current charge against income and represents an amount which management believes is sufficient to maintain an appropriate allowance for known and probable losses in the loan portfolio. In assessing the appropriateness of the allowance for loan losses, management considers the size and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, historical loan loss experience and credit quality of the portfolio. When a determination is made by management to charge-off a loan balance, such write-off is charged against the allowance for loan losses. We continue to attempt to identify problem loan situations on a proactive basis. Once problem loans are identified, adjustments to the provision for loan losses are made based upon all information available at that time. The provision reflects management s analysis of additional allowance for loan losses necessary to cover probable losses in our loan portfolio. The provision for loan losses decreased to $0.5 million for the second quarter of 2017 compared to $1.1 million in the same period of 2016. The provision for loan losses for the six months ended June 30, 2017 decreased to $1.0 million compared to $2.1 million in the same period of 2016.

Sensitive assets include non-accrual loans, loans on our classified loan reports and other loans identified as having more than reasonable potential for loss. Management reviews sensitive assets on at least a quarterly basis for changes in each applicable customer s ability to pay and changes in valuation of underlying collateral in order to estimate probable losses. The majority of these loans are being repaid in conformance with their contracts.

Non-performing Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth information concerning non-performing loans as of each of the dates indicated *(dollars in thousands)*:

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Non-accrual loans	$ 18,935	$ 20,544	$ 21,423	$ 16,253
Loans 90+ days past due and still accruing	1,123	311	131	3,830
Total non-performing loans	$ 20,058	$ 20,855	$ 21,554	$ 20,083
OREO	$ 480	$ 739	$ 2,518	$ 2,324
Total non-performing assets	$ 20,538	$ 21,594	$ 24,072	$ 22,407
Allowance for loan losses	$ 49,201	$ 48,442	$ 47,795	$ 47,847
Allowance for loan losses to portfolio loans	1.3%	1.3%	1.2%	1.3%
Allowance for loan losses to non-performing loans	245.3%	232.3%	221.7%	238.2%
Non-performing loans to portfolio loans, before allowance for loan losses	0.5%	0.5%	0.6%	0.5%
Non-performing loans and OREO to portfolio loans, before allowance for loan losses	0.5%	0.6%	0.6%	0.6%

Total non-performing assets were $20.5 million at June 30, 2017, compared to $24.1 million at December 31, 2016. Non-performing assets as a percentage of total loans and non-performing assets continued to be favorably low at 0.5% on June 30, 2017. Asset quality metrics can be generally influenced by market-specific economic conditions beyond the control of the Company, and specific measures may fluctuate from quarter to quarter.

Potential Problem Loans

Potential problem loans are those loans which are not categorized as impaired, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with present loan repayment terms. Management assesses the potential for loss on such loans as it would with other problem loans and has considered the effect of any potential loss in determining its provision for probable loan losses. Potential problem loans totaled $48.7 million at June 30, 2017, compared to $50.2 million at December 31, 2016. Management continues to monitor these credits and anticipates that restructurings, guarantees, additional collateral or other planned actions will result in full repayment of the debts. As of June 30, 2017, management identified no other loans that represent or result from trends or uncertainties which management reasonably expected to materially impact future operating results, liquidity or capital resources. As of June 30, 2017, management was not aware of any information about any other credits which caused management to have serious doubts as to the ability of such borrower(s) to comply with the loan repayment terms.

LIQUIDITY

Liquidity management is the process by which we ensure that adequate liquid funds are available to meet the present and future cash flow obligations arising in the daily operations of our business. These financial obligations consist of needs for funds to meet commitments to borrowers for extensions of credit, fund capital expenditures, honor withdrawals by customers, pay dividends to stockholders and pay operating expenses. Our most liquid assets are cash and due from banks, interest-bearing bank deposits and federal funds sold. The balances of these assets are dependent on the Company s operating, investing, lending, and financing activities during any given period.

First Busey s primary sources of funds consist of deposits, investment maturities and sales, loan principal repayments, and capital funds. Additional liquidity is provided by the ability to borrow from the FHLB and the Federal Reserve and brokered deposits.

As of June 30, 2017, management believed that adequate liquidity existed to meet all projected cash flow obligations. We seek to achieve a satisfactory degree of liquidity by actively managing both assets and liabilities. Asset management guides the proportion of liquid assets to total assets, while liability management monitors future funding requirements and prices liabilities accordingly.

OFF-BALANCE-SHEET ARRANGEMENTS

At June 30, 2017, the Company had outstanding standby letters of credit of $19.2 million and commitments to extend credit of $953.2 million to its customers. Since these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. These commitments are made in the ordinary course of business to meet the financing needs of the Company s customers. As of June 30, 2017, no amounts were recorded as liabilities for the Company s potential obligations under these commitments.

CAPITAL RESOURCES

Our capital ratios are in excess of those required to be considered well-capitalized pursuant to applicable regulatory guidelines. The Federal Reserve Board uses capital adequacy guidelines in its examination and regulation of bank holding companies and their subsidiary banks. Risk-based capital ratios are established by allocating assets and certain off-balance-sheet commitments into risk-weighted categories. These balances are then multiplied by the factor appropriate for that risk-weighted category. For 2017, the guidelines, including the capital conservation buffer, required bank holding companies and their subsidiary banks to maintain a total capital to total risk-weighted asset ratio of not less than 9.25%, Tier 1 capital to total risk-weighted asset ratio of not less than 7.25%, Common Equity Tier 1 capital to total risk-weighted asset ratio of not less than 5.75% and a Tier 1 leverage ratio of not less than 4.00%. These minimum capital requirements will increase annually until the Basel III Rule is fully phased-in on January 1, 2019. As of June 30, 2017, First Busey had a total capital to total risk-weighted asset ratio of 16.18%, a Tier 1 capital to risk-weighted asset ratio of 13.60%, Common Equity Tier 1 capital to risk-weighted asset ratio of 11.86% and a Tier 1 leverage ratio of 10.98%; Busey Bank had ratios of 13.94%, 12.76%, 12.76% and 10.25%, respectively.

NON-GAAP FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q contains certain financial information determined by methods other than in accordance with GAAP. These measures include acquisition and other notable pre-tax items, operating earnings and efficiency ratios. Management uses these non-GAAP measures, together with the related GAAP measures, in analysis of the Company s performance and in making business decisions. Management also uses these measures for peer comparisons.

Management believes that operating earnings, adjusted for acquisition and other notable pre-tax items, is useful in assessing our core operating performance and in understanding the primary drivers of our non-interest income and non-interest expense when comparing periods. Management believes that operating earnings is a useful measure because it excludes expenses that can significantly fluctuate from acquisition to acquisition. In addition, management believes that excluding these expenses provides investors and analysts a measure to better understand the Company s primary operations when comparing the periods presented.

Operating earnings reconciliation *(dollars in thousands)*:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net income	$ 16,479	$ 31,649
MIB Pending acquisition	113	244
First Community acquisition	234	836
Pulaski acquisition		23
Restructuring costs		215
Related tax benefit	(139)	(486)
Operating earnings	$ 16,687	$ 32,481

Management believes that efficiency ratios are standard financial measures used in the banking industry to evaluate performance.

The non-GAAP disclosures contained herein should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

FORWARD-LOOKING STATEMENTS

Statements made in this report, other than those concerning historical financial information, may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, plans, objectives, future performance and business of First Busey. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of First Busey s management and on information currently available to management, are generally identifiable by the use of words such as believe, expect, anticipate, plan, intend, estimate, may, will, would, could, should or other similar expressions. Ad statements in this document, including forward-looking statements, speak only as of the date they are made, and we undertake no obligation to update any statement in light of new information or future events. A number of factors, many of which are beyond our ability to control or predict, could cause actual results to differ materially from those in our forward-looking statements. These factors include, among others, the following: (i) the strength of the local, national and international economy; (ii) the economic impact of any future terrorist threats or attacks; (iii) changes in state and federal laws, regulations and governmental policies concerning First Busey s general business; (iv) changes in interest rates and prepayment rates of First Busey s assets; (v) increased competition in the financial services sector and the inability to attract new customers; (vi) changes in technology and the ability to develop and maintain secure and reliable electronic systems; (vii) the loss of key executives or employees; (viii) changes in consumer spending; (ix) unexpected results of current and/or future acquisitions, which may include termination of the merger agreement, failure to realize the anticipated benefits of the acquisition and the possibility that the transaction costs may be greater than anticipated; (x) unexpected outcomes of existing or new litigation involving First Busey; (xi) changes in accounting policies and practices; and (xii) the economic impact of exceptional weather occurrences such as tornadoes, hurricanes, floods, and blizzards. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning First Busey and its business, including additional factors that could materially affect its financial results, is included in First Busey s filings with the SEC.

CRITICAL ACCOUNTING ESTIMATES

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

Our significant accounting policies are described in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2016. The majority of these accounting policies do not require management to make difficult, subjective or complex judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

Fair Value of Investment Securities. Securities are classified as held to maturity when First Busey has the ability and management has the intent to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. First Busey had $208.6 million of securities classified as held to maturity at June 30, 2017. First Busey had no securities classified as trading at June 30, 2017. Securities are classified as available for sale when First Busey may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons. They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. As of June 30, 2017, First Busey had $646.4 million of securities classified as available for sale. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security s terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.

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

The Company also evaluates whether the decline in fair value of an equity security is temporary or OTTI. In determining whether an unrealized loss on an equity security is temporary or OTTI, management considers various factors including the magnitude and duration of the impairment, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the equity security to forecasted recovery.

Fair Value of Assets Acquired and Liabilities Assumed in Business Combinations. Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair value on the date of acquisition. Analysis is conducted under the standard of fair value which is defined in ASC Topic 820, Fair Value Measurement, as   the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a loan portfolio acquired in a business combination generally requires greater levels of management estimates and judgment than the remainder of assets acquired or liabilities assumed. At the date of acquisition, when the loans have evidence of credit deterioration since origination and it is probable that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. The Company must estimate expected cash flows at each future reporting date. Subsequent decreases in the expected cash flows will generally result in a provision for loan losses. Subsequent increases in the expected cash flows will generally be offset against the allowance for loan losses to the extent an allowance has been established or recognized as interest income prospectively.

Allowance for Loan Losses. First Busey has established an allowance for loan losses which represents its estimate of the probable losses inherent in the loan portfolio as of the date of the financial statements and reduces the total loans outstanding by an estimate of uncollectible loans. Loans deemed uncollectible are charged against and reduce the allowance. A provision for loan losses is charged to current expense. This provision acts to replenish the allowance for loan losses and to maintain the allowance at a level that management deems adequate. Acquired loans from business combinations with uncollected principal balances are carried net of a fair value adjustment for credit and interest rates. These loans are only included in the allowance calculation to the extent that the reserve requirement exceeds the fair value adjustment. However, as the acquired loans renew, it is generally necessary to establish an allowance which represents an amount that, in management s opinion, will be adequate to absorb probable credit losses in such loans.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of changes in asset values due to movements in underlying market rates and prices. Interest rate risk is a type of market risk to earnings and capital arising from movements in interest rates. Interest rate risk is the most significant market risk affecting First Busey as other types of market risk, such as foreign currency exchange rate risk and commodity price risk, have minimal impact or do not arise in the normal course of First Busey s business activities.

First Busey has an asset-liability committee, whose policy is to meet at least quarterly, to review current market conditions and attempts to structure the Consolidated Balance Sheets to ensure stable net interest income despite potential changes in interest rates with all other variables constant.

As interest rate changes do not impact all categories of assets and liabilities equally or simultaneously, the asset-liability committee primarily relies on Balance Sheet and income simulation analysis to determine the potential impact of changes in market interest rates on net interest income. In these standard simulation models, the Balance Sheet is projected over a year-one time horizon and a year-two time horizon, and net interest income is calculated under current market rates and then assuming permanent instantaneous shifts of +/-100, +/-200, +/-300 and +/-400 basis points. Management measures such changes assuming immediate and sustained shifts in the federal funds rate and other market rate indices and the corresponding shifts in other non-market rate indices based on their historical changes relative to changes in the federal funds rate and other market indices. The model assumes assets and liabilities remain constant at the measurement date balances. The model uses repricing frequency on all variable-rate assets and liabilities. Prepayment speeds on loans have been adjusted to incorporate expected prepayment speeds in both a declining and rising rate environment.

As of June 30, 2017, due to the current interest rate environment, a downward adjustment below -100 basis points in federal fund rates was not meaningful. As of December 31, 2016, a downward adjustment in federal fund rates was not meaningful. Utilizing this measurement concept, the interest rate risk of First Busey due to an immediate and sustained change in interest rates, expressed as a change in net interest income as a percentage of the net interest income calculated in the constant base model, was as follows:

	Year-One: Basis Point Changes							
	-400	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**	**+400**
June 30, 2017	NA	NA	NA	(1.00)%	1.07%	1.86%	2.43%	2.73%
December 31, 2016	NA	NA	NA	NA	(0.29)%	(1.20)%	(2.42)%	(3.86)%

	Year-Two: Basis Point Changes							
	-400	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**	**+400**
June 30, 2017	NA	NA	NA	(3.60)%	3.44%	6.20%	8.50%	10.07%
December 31, 2016	NA	NA	NA	NA	2.17%	3.12%	3.63%	3.56%

The risk is monitored and managed within approved policy limits. The calculation of potential effects of hypothetical interest rate changes was based on numerous assumptions and should not be relied upon as indicative of actual results. Actual results would differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management strategies. The above results do not take into account any management action to mitigate potential risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was carried out as of June 30, 2017, under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, our disclosure controls and procedures were effective in ensuring that the information we are required to disclose in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2017, First Busey did not make any changes in its internal control over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 3, 2015, First Busey s board of directors authorized the Company to repurchase up to an aggregate of 666,667 shares of its common stock. The repurchase plan has no expiration date and replaced the prior repurchase plan that was originally approved in 2008. There were no purchases made by or on behalf of First Busey of shares of its common stock during the quarter ended June 30, 2017. At June 30, 2017, the Company had 333,334 shares that may still be purchased under the plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) None.

ITEM 6. EXHIBITS

10.1	Underwriting Agreement, dated May 18, 2017, between the Company and U.S. Bancorp Investments, Inc. and Sandler O Neill & Partners, L.P., as representatives of the several underwriters named therein (filed as Exhibit 1.1 to the Company s Form 8-K filed with the Commission on May 24, 2017).
4.1	Indenture, dated as of May 25, 2017, between the Company and U.S. Bank National Association (filed as Exhibit 4.1 to the Company s Form 8-K filed with the Commission on May 25, 2017).
4.2	First Supplemental Indenture, dated as of May 25, 2017, between the Company and U.S. Bank National Association (filed as Exhibit 4.2 to the Company s Form 8-K filed with the Commission on May 25, 2017).
4.3	Second Supplemental Indenture, dated as of May 25, 2017, between the Company and U.S. Bank National Association (filed as Exhibit 4.3 to the Company s Form 8-K filed with the Commission on May 25, 2017).
4.4	Form of 3.75% Senior Notes due 2022 (included in Exhibit 4.4 to the Company s Form 8-K filed with the Commission on May 25, 2017).
4.5	Form of Fixed-to-Floating Rate Subordinated Notes due 2027 (included in Exhibit 4.5 to the Company s Form 8-K filed with the Commission on May 25, 2017).
*31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
*31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a).
*32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Executive Officer.
*32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company s Chief Financial Officer.
*101	Interactive Data File
	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016; (iv) Consolidated Statements of Stockholders Equity for the six months ended June 30, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016; and (vi) Notes to Unaudited Consolidated Financial Statements.

*Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST BUSEY CORPORATION

(Registrant)

By: /s/ VAN A. DUKEMAN

Van A. Dukeman
President and Chief Executive Officer
(Principal executive officer)

By: /s/ ROBIN N. ELLIOTT

Robin N. Elliott
Chief Financial Officer
(Principal financial officer)

By: /s/ SUSAN K. MILLER

Susan K. Miller
Deputy Chief Financial Officer and Chief Accounting Officer
(Principal accounting officer)

Date: August 8, 2017