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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarterly Period Ended September 30, 2020**

**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)

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

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

<b>Title of each class</b>	<b>Trading Symbol (s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$.001 par value	BUSE	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

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

<b>Class</b>	<b>Outstanding at November 5, 2020</b>
Common Stock, \$.001 par value	54,522,231

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**FIRST BUSEY CORPORATION**  
**FORM 10-Q**  
**September 30, 2020**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	September 30, 2020	December 31, 2019
	<i>(dollars in thousands)</i>	
<b>Assets</b>		
Cash and due from banks	\$ 182,555	\$ 136,546
Interest-bearing deposits	297,166	392,742
Total cash and cash equivalents	479,721	529,288
Debt securities available for sale	2,080,849	1,648,257
Equity securities	17,808	5,952
Loans held for sale, at fair value	87,772	68,699
Portfolio loans (net of allowance 2020 \$98,841; 2019 \$53,748)	7,022,470	6,633,501
Premises and equipment, net	144,001	151,267
Right of use asset	7,251	9,490
Goodwill	311,536	311,536
Other intangible assets, net	54,424	61,593
Cash surrender value of bank owned life insurance	175,570	173,595
Other assets	158,226	102,551
Total assets	<u>\$ 10,539,628</u>	<u>\$ 9,695,729</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 2,595,075	\$ 1,832,619
Interest-bearing	6,047,626	6,069,777
Total deposits	8,642,701	7,902,396
Securities sold under agreements to repurchase	201,641	205,491
Short-term borrowings	4,651	8,551
Long-term debt	4,931	83,600
Senior notes, net of unamortized issuance costs	39,775	39,674
Subordinated notes, net of unamortized issuance costs	182,095	59,248
Junior subordinated debt owed to unconsolidated trusts	71,427	71,308
Lease liability	7,342	9,552
Other liabilities	129,360	95,475
Total liabilities	<u>9,283,923</u>	<u>8,475,295</u>
Outstanding commitments and contingent liabilities (see Notes 10 and 15)		
<b>Stockholders' Equity</b>		
Common stock, \$.001 par value, authorized 2020 100,000,000 shares; authorized 2019 66,666,667 shares; 55,910,733 shares issued	56	56
Additional paid-in capital	1,250,391	1,248,216
Retained earnings (accumulated deficit)	4,718	(14,813)
Accumulated other comprehensive income (loss)	35,525	14,960
Total stockholders' equity before treasury stock	1,290,690	1,248,419
Treasury stock at cost, 2020 1,388,502 shares; 2019 1,121,961 shares	(34,985)	(27,985)
Total stockholders' equity	1,255,705	1,220,434
Total liabilities and stockholders' equity	<u>\$ 10,539,628</u>	<u>\$ 9,695,729</u>
Common shares outstanding at period end	<u>54,522,231</u>	<u>54,788,772</u>

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(dollars in thousands, except per share amounts)</i>			
<b>Interest income:</b>				
Interest and fees on loans	\$ 69,809	\$ 78,083	\$ 213,434	\$ 227,903
Interest and dividends on investment securities:				
Taxable interest income	8,466	10,247	26,807	31,583
Non-taxable interest income	1,141	1,180	3,458	3,456
Other interest income	213	2,181	1,596	4,496
Total interest income	<u>79,629</u>	<u>91,691</u>	<u>245,295</u>	<u>267,438</u>
<b>Interest expense:</b>				
Deposits	6,105	14,753	26,053	41,407
Federal funds purchased and securities sold under agreements to repurchase	88	579	596	1,789
Short-term borrowings	30	200	215	885
Long-term debt	38	700	495	2,020
Senior notes	400	400	1,199	1,199
Subordinated notes	2,475	731	4,518	2,193
Junior subordinated debt owed to unconsolidated trusts	740	852	2,220	2,658
Total interest expense	<u>9,876</u>	<u>18,215</u>	<u>35,296</u>	<u>52,151</u>
Net interest income	<u>69,753</u>	<u>73,476</u>	<u>209,999</u>	<u>215,287</u>
Provision for credit losses	5,549	3,411	35,656	8,039
Net interest income after provision for credit losses	<u>64,204</u>	<u>70,065</u>	<u>174,343</u>	<u>207,248</u>
<b>Non-interest income:</b>				
Wealth management fees	10,548	8,821	32,296	27,338
Fees for customer services	8,014	9,842	23,400	27,635
Remittance processing	3,995	3,780	11,466	11,277
Mortgage revenue	5,793	3,331	9,879	8,127
Income on bank owned life insurance	1,022	1,573	4,361	4,653
Net gains (losses) on sales of securities	11	296	1,710	112
Unrealized gains (losses) recognized on equity securities	(437)	65	(1,234)	(735)
Other income	3,339	3,228	5,888	6,370
Total non-interest income	<u>32,285</u>	<u>30,936</u>	<u>87,766</u>	<u>84,777</u>
<b>Non-interest expense:</b>				
Salaries, wages and employee benefits	32,839	38,747	95,397	105,356
Data processing	3,937	5,032	12,383	15,049
Net occupancy expense of premises	4,256	4,652	13,419	13,365
Furniture and equipment expenses	2,325	2,489	7,311	6,936
Professional fees	1,698	2,622	5,508	9,001
Amortization of intangible assets	2,493	2,360	7,569	6,866
Other expense	8,994	12,219	28,537	36,731
Total non-interest expense	<u>56,542</u>	<u>68,121</u>	<u>170,124</u>	<u>193,304</u>
Income before income taxes	<u>39,947</u>	<u>32,880</u>	<u>91,985</u>	<u>98,721</u>
Income taxes	9,118	8,052	19,986	24,339
<b>Net income</b>	<u>\$ 30,829</u>	<u>\$ 24,828</u>	<u>\$ 71,999</u>	<u>\$ 74,382</u>
<b>Basic earnings per common share</b>	<u>\$ 0.56</u>	<u>\$ 0.45</u>	<u>\$ 1.32</u>	<u>\$ 1.36</u>
<b>Diluted earnings per common share</b>	<u>\$ 0.56</u>	<u>\$ 0.45</u>	<u>\$ 1.31</u>	<u>\$ 1.35</u>
<b>Dividends declared per share of common stock</b>	<u>\$ 0.22</u>	<u>\$ 0.21</u>	<u>\$ 0.66</u>	<u>\$ 0.63</u>

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2020	2019	2020	2019
	<i>(dollars in thousands)</i>			
Net income	\$ 30,829	\$ 24,828	\$ 71,999	\$ 74,382
Other comprehensive income:				
Unrealized gains (losses) on debt securities available for sale:				
Net unrealized holding gains (losses) on debt securities available for sale, net of taxes of \$682, \$(1,423), \$(9,577) and \$(8,552), respectively	(1,710)	3,568	23,974	21,453
Net unrealized losses on debt securities transferred from held to maturity to available for sale, net of taxes of \$-, \$-, \$- and \$(1,363), respectively	—	—	—	3,417
Reclassification adjustment for realized (gains) losses on debt securities available for sale included in net income, net of taxes of \$3, \$85, \$492 and \$29, respectively	(8)	(212)	(1,218)	(75)
Net change in unrealized gains (losses) on debt securities available for sale	(1,718)	3,356	22,756	24,795
Unrealized gains (losses) on cash flow hedges:				
Net unrealized holding (losses) gains on cash flow hedges, net of taxes of \$(6), \$239, \$890 and \$239, respectively	14	(598)	(2,233)	(598)
Reclassification adjustment for realized losses (gains) on cash flow hedges included in net income, net of taxes of \$(76), \$(3), \$(16) and \$(3), respectively	192	6	42	6
Net change in unrealized gains (losses) on derivative instruments	206	(592)	(2,191)	(592)
Net change in accumulated other comprehensive income (loss)	(1,512)	2,764	20,565	24,203
Total comprehensive income	<u>\$ 29,317</u>	<u>\$ 27,592</u>	<u>\$ 92,564</u>	<u>\$ 98,585</u>

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
*(dollars in thousands, except per share amounts)*

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
<b>For the Three Months Ended September 30, 2020</b>							
Balance, June 30, 2020	54,516,000	\$ 56	\$ 1,248,045	\$ (13,951)	\$ 37,037	\$ (35,103)	\$ 1,236,084
Net income	—	—	—	30,829	—	—	30,829
Other comprehensive income (loss)	—	—	—	—	(1,512)	—	(1,512)
Issuance of treasury stock for employee stock purchase plan	6,119	—	(23)	—	—	116	93
Net issuance of treasury stock for restricted/deferred stock unit vesting and related tax	112	—	(2)	—	—	2	—
Net issuance of treasury stock for stock options exercised, net of shares redeemed and related tax	—	—	—	—	—	—	—
Cash dividends common stock at \$0.22 per share	—	—	—	(11,994)	—	—	(11,994)
Stock dividend equivalents restricted stock units at \$0.22 per share	—	—	166	(166)	—	—	—
Stock-based compensation	—	—	2,205	—	—	—	2,205
Balance, September 30, 2020	<u>54,522,231</u>	<u>\$ 56</u>	<u>\$ 1,250,391</u>	<u>\$ 4,718</u>	<u>\$ 35,525</u>	<u>\$ (34,985)</u>	<u>\$ 1,255,705</u>
<b>For the Nine Months Ended September 30, 2020</b>							
Balance, December 31, 2019	54,788,772	\$ 56	\$ 1,248,216	\$ (14,813)	\$ 14,960	\$ (27,985)	\$ 1,220,434
Cumulative effect of change in accounting principle	—	—	—	(15,922)	—	—	(15,922)
Net income	—	—	—	71,999	—	—	71,999
Other comprehensive income (loss)	—	—	—	—	20,565	—	20,565
Repurchase of stock	(407,850)	—	—	—	—	(9,669)	(9,669)
Issuance of treasury stock for employee stock purchase plan	26,651	—	(68)	—	—	504	436
Net issuance of treasury stock for restricted/deferred stock unit vesting and related tax	106,589	—	(2,648)	—	—	2,013	(635)
Net issuance of treasury stock for stock options exercised, net of shares redeemed and related tax	8,069	—	(51)	—	—	152	101
Cash dividends common stock at \$0.66 per share	—	—	—	(36,017)	—	—	(36,017)
Stock dividend equivalents restricted stock units at \$0.66 per share	—	—	529	(529)	—	—	—
Stock-based compensation	—	—	4,413	—	—	—	4,413
Balance, September 30, 2020	<u>54,522,231</u>	<u>\$ 56</u>	<u>\$ 1,250,391</u>	<u>\$ 4,718</u>	<u>\$ 35,525</u>	<u>\$ (34,985)</u>	<u>\$ 1,255,705</u>

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)**  
**(Unaudited)**  
*(dollars in thousands, except per share amounts)*

	Shares	Common Stock	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
<b>For the Three Months Ended September 30, 2019</b>							
Balance, June 30, 2019	55,386,636	\$ 56	\$ 1,246,160	\$ (44,878)	\$ 14,627	\$ (12,357)	\$ 1,203,608
Net income	—	—	—	24,828	—	—	24,828
Other comprehensive income (loss)	—	—	—	—	2,764	—	2,764
Repurchase of stock	(194,062)	—	—	—	—	(4,890)	(4,890)
Issuance of treasury stock for employee stock purchase plan	4,378	—	21	—	—	83	104
Net issuance of treasury stock for restricted/deferred stock unit vesting and related tax	—	—	(6)	—	—	—	(6)
Net issuance of treasury stock for stock options exercised, net of shares redeemed and related tax	325	—	(6)	—	—	6	—
Cash dividends common stock at \$0.21 per share	—	—	—	(11,632)	—	—	(11,632)
Stock dividend equivalents restricted stock units at \$0.21 per share	—	—	186	(186)	—	—	—
Stock-based compensation	—	—	1,205	—	—	—	1,205
Balance, September 30, 2019	<u>55,197,277</u>	<u>\$ 56</u>	<u>\$ 1,247,560</u>	<u>\$ (31,868)</u>	<u>\$ 17,391</u>	<u>\$ (17,158)</u>	<u>\$ 1,215,981</u>
<b>For the Nine Months Ended September 30, 2019</b>							
Balance, December 31, 2018	48,874,836	\$ 49	\$ 1,080,084	\$ (72,167)	\$ (6,812)	\$ (6,190)	\$ 994,964
Net income	—	—	—	74,382	—	—	74,382
Other comprehensive income (loss)	—	—	—	—	24,203	—	24,203
Stock issued in acquisition of Banc Ed, net of stock issuance costs	6,725,152	7	166,274	—	—	—	166,281
Repurchase of stock	(527,396)	—	—	—	—	(13,323)	(13,323)
Issuance of treasury stock for employee stock purchase plan	20,528	—	100	—	—	389	489
Net issuance of treasury stock for restricted/deferred stock unit vesting and related tax	91,032	—	(2,541)	—	—	345	(2,196)
Net issuance of treasury stock for stock options exercised, net of shares redeemed and related tax	13,125	—	(97)	—	—	1,621	1,524
Cash dividends common stock at \$0.63 per share	—	—	—	(33,579)	—	—	(33,579)
Stock dividend equivalents restricted stock units at \$0.63 per share	—	—	504	(504)	—	—	—
Stock-based compensation	—	—	3,236	—	—	—	3,236
Balance, September 30, 2019	<u>55,197,277</u>	<u>\$ 56</u>	<u>\$ 1,247,560</u>	<u>\$ (31,868)</u>	<u>\$ 17,391</u>	<u>\$ (17,158)</u>	<u>\$ 1,215,981</u>

See accompanying notes to unaudited consolidated financial statements.



**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2020	2019
<i>(dollars in thousands)</i>		
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 71,999	\$ 74,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	35,656	8,039
Amortization of intangible assets	7,569	6,866
Amortization of mortgage servicing rights	3,932	2,061
Depreciation and amortization of premises and equipment	9,384	8,701
Net amortization (accretion) of premium (discount) on portfolio loans	(7,015)	(8,300)
Net amortization (accretion) of premium (discount) on investment securities	6,698	4,514
Net amortization (accretion) of premium (discount) on time deposits	(662)	(1,236)
Net amortization (accretion) of premium (discount) on Federal Home Loan Bank ("FHLB") advances and other borrowings	387	216
Impairment of other real estate owned ("OREO")	43	62
Impairment of fixed assets held for sale	36	—
Impairment of mortgage servicing rights	604	1,822
Impairment of leases	—	415
Change in fair value of equity securities, net	1,234	735
(Gain) loss on equity securities	—	(8)
(Gain) loss on sales of debt securities, net	(1,710)	(104)
(Gain) loss on sale of loans, net	(21,357)	(11,022)
(Gain) loss on sale of OREO	47	(84)
(Gain) loss on sale of premises and equipment	198	114
(Gain) loss on life insurance proceeds	(1,256)	(1,509)
Provision for deferred income taxes	(2,730)	1,820
Stock-based and non-cash compensation	4,413	3,236
Decrease in deferred compensation	—	(6,781)
Increase in cash surrender value of bank owned life insurance	(3,105)	(3,144)
Mortgage loans originated for sale	(770,186)	(469,249)
Proceeds from sales of mortgage loans	771,039	437,525
Net change in operating assets and liabilities:		
Decrease (increase) in other assets	(3,435)	3,412
(Decrease) increase in other liabilities	(369)	(161)
<b>Net cash (used in) provided by operating activities</b>	<b>\$ 101,414</b>	<b>\$ 52,322</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of equity securities	(13,123)	—
Purchases of debt securities available for sale	(907,094)	(296,806)
Purchase of FHLB stock	—	(3,700)
Proceeds from sales of equity securities	33	958
Proceeds from sales of debt securities available for sale	—	227,371
Proceeds from paydowns and maturities of debt securities held to maturity	—	14,422
Proceeds from paydowns and maturities of debt securities available for sale	477,370	366,624
Proceeds from the redemption of FHLB stock	—	3,720
Net cash (received) paid in acquisitions	—	(61,481)
Net change in loans	(439,679)	(227,069)
Cash paid for premiums on bank-owned life insurance	(120)	(3)
Purchases of premises and equipment	(3,158)	(10,746)
Proceeds from life insurance	2,512	3,915
Proceeds from disposition of premises and equipment	806	393
Capitalized expenditures on OREO	—	(2)
Proceeds from sale of OREO	492	2,071
<b>Net cash (used in) provided by investing activities</b>	<b>\$ (881,961)</b>	<b>\$ 19,667</b>

**FIRST BUSEY CORPORATION and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
	<i>(dollars in thousands)</i>	
<b>Cash Flows from Financing Activities</b>		
Net change in deposits	\$ 740,967	\$ 243,177
Net change in federal funds purchased and securities sold under agreements to repurchase	(3,850)	(33,895)
Proceeds from other borrowings	142,634	60,000
Repayment of other borrowings	(74,000)	(4,500)
Proceeds from FHLB advances	4,000	—
Repayment of FHLB advances	(32,551)	(3,479)
Cash dividends paid	(36,017)	(33,579)
Purchase of treasury stock	(9,669)	(13,323)
Cash paid for withholding taxes on share-based payments	(635)	(841)
Proceeds from stock options exercised	101	169
Common stock issuance costs	—	(234)
<b>Net cash (used in) provided by financing activities</b>	<b>\$ 730,980</b>	<b>\$ 213,495</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(49,567)</b>	<b>285,484</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>529,288</b>	<b>239,973</b>
<b>Cash and cash equivalents, ending of period</b>	<b>\$ 479,721</b>	<b>\$ 525,457</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
<b>Cash Payments for:</b>		
Interest	\$ 41,987	\$ 51,230
Income taxes	19,395	15,205
<b>Non-cash Investing and Financing Activities:</b>		
OREO acquired in settlement of loans	2,482	2,349
Transfer of debt securities held to maturity to available for sale	—	573,639

See accompanying notes to unaudited consolidated financial statements.

**FIRST BUSEY CORPORATION and Subsidiaries**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Significant Accounting Policies**

Basis of Financial Statement Presentation

When preparing these unaudited consolidated financial statements of First Busey Corporation, a Nevada corporation, and its subsidiaries (collectively, “First Busey,” “Company,” “we,” or “our”), we have assumed that you have read the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 (“2019 Form 10-K”). These interim unaudited consolidated financial statements serve to update our 2019 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

We prepared these unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the current period presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

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

Impacts of COVID-19

First Busey continues to operate as an essential community resource during these challenging and unprecedented times. The coronavirus disease 2019 (“COVID-19”) is not only impacting health and safety around the world, it is causing significant economic disruption for both individuals and businesses, making the Company’s supportive role even more important to its customers. The Company entered this crisis from a position of strength and remains resolute in its focus on protecting its balance sheet. To further enhance the Company’s strong liquidity position, during the second quarter, the Company completed a successful public offering of \$125.0 million of its 5.25% fixed-to-floating rate subordinated notes due in 2030. The progression of the COVID-19 pandemic in the United States began to negatively impact the Company’s results of operations starting in the first quarter of 2020. In future quarters, COVID-19 is expected to have a complex and continued adverse impact on the economy, the banking industry and First Busey, all subject to a high degree of uncertainty as it relates to both timing and severity. Primary areas of potential future impact for First Busey may include continued margin compression, increased provision expense, a deterioration in asset quality and lower fees for customer services.

The Company elected to participate in the Paycheck Protection Program (“PPP”) and at September 30, 2020 had \$749.4 million in PPP loans outstanding, with an amortized cost of \$736.4 million, representing 4,569 new and existing customers. The Company received fees totaling approximately \$25.4 million and incurred incremental direct origination costs of \$5.1 million, both of which have been deferred and are being amortized over the contractual life of these loans, subject to prepayment. The Company recognized \$4.2 million and \$3.0 million of this net amount in interest income in the third and second quarters of 2020, respectively. PPP loans contain a forgiveness feature for funds spent on covered expenses, including both principal and accrued interest. Any remaining balance after loan forgiveness maintains a 100% government guarantee for the remaining term of the loan. The Company has implemented an online portal designed to streamline the PPP loan forgiveness process, providing an intuitive and easy-to-use tool borrowers can use to apply for forgiveness. As of September 30, 2020, no loans were yet approved for forgiveness by the SBA. As these loans are forgiven, the recognition of these fees and direct origination costs will be accelerated.

Subsequent Events

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. Subsequent to quarter end, the Company closed 12 banking centers. The Company anticipates additional one-time restructuring expenses

related to its banking center consolidation plan in the fourth quarter of 2020 as we finalize the fair value estimates related to the disposition of these banking centers. We currently estimate those remaining non-operating pre-tax expenses related to the banking center consolidation plan to be in the range of \$7.0 million to \$7.5 million. There were no other significant subsequent events for the quarter ended September 30, 2020 through the issuance date of these unaudited consolidated financial statements that warranted adjustment to or disclosure in the unaudited consolidated financial statements.

#### Use of Estimates

In preparing the accompanying unaudited consolidated financial statements in conformity with GAAP, the Company's management is required to make estimates and assumptions that affect the amounts reported in the financial statements and the disclosures provided. Actual results could differ from those estimates. Material estimates which are particularly susceptible to significant change in the near term relate to the fair value of investment securities, fair value of assets acquired and liabilities assumed in business combinations, goodwill, income taxes and the determination of the allowance for credit losses.

#### Impact of recently adopted accounting standards

On January 1, 2020, First Busey adopted *Accounting Standards Update ("ASU") 2016-13 Financial Instruments – Credit Losses ("Topic 326"): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Accounting Standards Codification ("ASC") 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell before recovery of its amortized cost basis.

First Busey adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP which includes a change in terminology from 'Allowance/Provision for Loan Losses' to "Allowance/Provision for Credit Losses." First Busey recorded an after tax decrease to retained earnings of \$15.9 million as of January 1, 2020 for the cumulative effect of adopting ASC 326. This transition adjustment included \$12.0 million in allowance for credit losses on loans and \$3.9 million in reserve for off-balance-sheet credit exposures.

First Busey adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. In accordance with ASC 326, the amortized cost basis of PCD assets were adjusted to reflect an allowance for credit losses for any remaining credit discount. Subsequent changes in expected cash flows will be adjusted through the allowance for credit losses. The noncredit discount will be accreted into interest income at the effective interest rate as of January 1, 2020.

The following table illustrates the impact of ASC 326 (*dollars in thousands*):

	January 1, 2020		
	Post ASC 326 Adoption	Pre-ASC 326 Adoption	Pre-tax impact of ASC 326 Adoption
<b>Assets:</b>			
Allowance			
Commercial	\$ 19,006	\$ 18,291	\$ 715
Commercial real estate	30,496	21,190	9,306
Real estate construction	6,158	3,204	2,954
Retail real estate	13,787	10,495	3,292
Retail other	1,134	568	566
Total allowance for credit losses	<u>\$ 70,581</u>	<u>\$ 53,748</u>	<u>\$ 16,833</u>
<b>Liabilities:</b>			
Reserve for off-balance-sheet credit exposures	\$ 5,492	—	\$ 5,492

*Allowance-debt securities available for sale*

Debt securities available for sale are not within the scope of CECL, however, the accounting for credit losses on these securities is affected by ASC 326-30. A debt security available for sale is impaired if the fair value of the security declines below its amortized cost basis. To determine the appropriate accounting, the Company must first determine if it intends to sell the security or if it is more likely than not that it will be required to sell the security before the fair value increases to at least the amortized cost basis. If either of those selling events is expected, the Company will write down the amortized cost basis of the security to its fair value. This is achieved by writing off any previously recorded allowance, if applicable, and recognizing any incremental impairment through earnings. If the Company does not intend to sell the security nor believes it more likely than not will be required to sell the security before the fair value recovers to the amortized cost basis, the Company must determine whether any of the decline in fair value has resulted from a credit loss, or if it is entirely the result of noncredit factors.

The Company considers the following factors in assessing whether the decline is due to a credit loss:

- Extent to which the fair value is less than the amortized cost basis.
- Adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors).
- Payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future.
- Failure of the issuer of the security to make scheduled interest or principal payments.
- Any changes to the rating of the security by a rating agency.

Impairment related to a credit loss must be measured using the discounted cash flow method. Credit loss recognition is limited to the fair value of the security. The impairment is recognized by establishing an allowance for credit losses through provision for credit losses. Impairment related to noncredit factors is recognized in accumulated other comprehensive income, net of applicable taxes.

Accrued interest receivable for debt securities available for sale totaled \$6.9 million at September 30, 2020 and is excluded from the estimate of credit losses. Accrued interest receivable is reported in Other Assets on the unaudited Consolidated Balance Sheets.

### *Allowance – portfolio loans*

The allowance for credit losses is a significant estimate in the Company's unaudited Consolidated Balance Sheet, affecting both earnings and capital. The allowance for credit losses is a valuation account that is deducted from the portfolio loans' amortized cost bases to present the net amount expected to be collected on the portfolio loans. Portfolio loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Recoveries will be recognized up to the aggregate amount of previously charged-off balances. The allowance for credit losses is established through provision for credit loss expense charged to income.

A loan's amortized cost basis is comprised of the unpaid principal balance of the loan, accrued interest receivable, purchase premiums or discounts, and net deferred origination fees or costs. The Company has estimated its allowance on the amortized cost basis, exclusive of government guaranteed loans and accrued interest receivable. The Company writes-off uncollectible accrued interest receivable in a timely manner and has elected to not measure an allowance for accrued interest receivable. The Company presents the aggregate amount of accrued interest receivable for all financial instruments in other assets on the unaudited Consolidated Balance Sheets and the balance of accrued interest receivable is disclosed in "Note 14: Fair Value Measurements."

Our methodology influences, and is influenced by, the Company's overall credit risk management processes. The allowance for credit losses is managed in accordance with GAAP to provide an adequate reserve for expected credit losses that is reflective of management's best estimate of what is expected to be collected. The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions such as changes in unemployment rates, property values and other relevant factors. The calculation also contemplates that the Company may not be able to make or obtain such forecasts for the entire life of the financial assets and requires a reversion to historical credit loss information. At implementation, the Company selected an eight-quarter forecast period with an immediate reversion to historical loss rates as management felt this period could be reasonably forecasted and was consistent with forecast periods used in other areas of finance. During the first quarter of 2020, the Company reduced its reasonable and supportable forecast period from eight quarters to four quarters. Due to rapidly changing forecasts around the impact of COVID-19, the Company does not believe it has the current ability to incorporate reasonable and supportable forecasts into its CECL models extending beyond four quarters.

Ongoing impacts of the CECL methodology will be dependent upon changes in economic conditions and forecasts, originated and acquired loan portfolio composition, credit performance trends, portfolio duration, and other factors.

### *Reserve for Off-balance-sheet credit exposures*

In estimating expected credit losses for off-balance-sheet credit exposures, the Company is required to estimate expected credit losses over the contractual period in which it is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the issuer. To be considered unconditionally cancelable for accounting purposes, the Company must have the ability to, at any time, with or without cause, refuse to extend credit under the commitment. Off-balance-sheet credit exposure segments share the same risk characteristics as portfolio loans. The Company incorporates a probability of funding and utilizes the allowance for credit losses loss rates to calculate the reserve. The reserve for off-balance-sheet credit exposure is carried on the balance sheet in other liabilities rather than as a component of the allowance. The reserve for off-balance-sheet credit exposure is adjusted as a provision for off-balance-sheet credit exposure reported as a component of non-interest expense in the accompanying unaudited Consolidated Statement of Income.

**Note 2: Acquisitions**

The Banc Ed Corp.

On January 31, 2019, the Company completed its acquisition of The Banc Ed Corp. (“Banc Ed”). TheBANK of Edwardsville (“TheBANK”), Banc Ed’s wholly-owned bank subsidiary, was operated as a separate subsidiary from the completion of the acquisition until October 4, 2019 when it was merged with and into Busey Bank. At that time, TheBANK’s banking centers became banking centers of Busey Bank.

Under the terms of the merger agreement with Banc Ed, at the effective time of the acquisition, each share of Banc Ed common stock issued and outstanding was converted into the right to receive 8.2067 shares of the Company’s common stock, cash in lieu of fractional shares and \$111.53 in cash consideration per share. The market value of the 6.7 million shares of First Busey common stock issued at the effective time of the acquisition was approximately \$166.5 million based on First Busey’s closing stock price of \$24.76 on January 31, 2019.

This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged was recorded at estimated fair values on the date of acquisition. As the total consideration paid for Banc Ed exceeded the net assets acquired, goodwill of \$41.4 million was recorded as a result of the acquisition. Goodwill recorded in the transaction, which reflected the synergies expected from the acquisition and expansion within the St. Louis MSA, is not tax deductible and was assigned to the Banking operating segment.

First Busey incurred \$0.2 million in pre-tax expenses related to the acquisition of Banc Ed for the three and nine months ended September 30, 2020 related to a lease termination, which is reported as a component of non-interest expense in the accompanying unaudited Consolidated Statement of Income. First Busey incurred \$6.5 million and \$11.5 million in pre-tax expenses related to the acquisition of Banc Ed for the three and nine months ended September 30, 2019, respectively, primarily for salaries, wages and employee benefits, professional and legal fees and deconversion expenses, all of which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Statement of Income.

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The following table presents the estimated fair value of Banc Ed's assets acquired and liabilities assumed as of January 31, 2019 (*dollars in thousands*):

	<b>Fair Value</b>
<b>Assets acquired:</b>	
Cash and cash equivalents	\$ 42,013
Securities	692,716
Loans held for sale	2,157
Portfolio loans	873,336
Premises and equipment	32,156
Other intangible assets	32,617
Mortgage servicing rights	6,946
Other assets	57,332
Total assets acquired	<u>1,739,273</u>
<b>Liabilities assumed:</b>	
Deposits	1,439,203
Other borrowings	63,439
Other liabilities	20,153
Total liabilities assumed	<u>1,522,795</u>
Net assets acquired	<u>\$ 216,478</u>
<b>Consideration paid:</b>	
Cash	\$ 91,400
Common stock	166,515
Total consideration paid	<u>\$ 257,915</u>
Goodwill	<u>\$ 41,437</u>

The following table provides the unaudited pro forma information for the results of operations for the three and nine months ended September 30, 2019, as if the acquisition had occurred on January 1, 2019. The pro forma results combine the historical results of Banc Ed into the Company's unaudited Consolidated Statements of Income, including the impact of purchase accounting adjustments including loan discount accretion, intangible assets amortization, deposit accretion and premises 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, 2019. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions (*dollars in thousands, except per share amounts*):

	<b>Pro Forma</b>	
	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Total revenues (net interest income plus non-interest income)	\$ 104,543	\$ 305,709
Net income	30,811	84,742
Diluted earnings per common share	0.55	1.51



Investors' Security Trust Company

On August 31, 2019, the Company completed the previously announced acquisition by Busey Bank of Investors' Security Trust Company ("IST"), a Fort Myers, Florida wealth management firm. While the partnership is expected to add to the Company's wealth management offerings, it is not expected to have any immediate, material impact on the Company's earnings or overall business. This transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged was recorded at estimated fair values on the date of acquisition.

First Busey incurred \$0.1 million and \$0.4 million in pre-tax expenses related to the acquisition of IST for the three and nine months ended September 30, 2020, respectively, primarily for contingent earn-out payments owed under the purchase agreement, which are reported as components of non-interest expense in the accompanying unaudited Consolidated Statements of Income. First Busey incurred \$0.5 million and \$0.7 million in pre-tax expenses related to the acquisition of IST for the three and nine months ended September 30, 2019, respectively, primarily for professional and legal fees, which are reported as a component of non-interest expense in the accompanying unaudited Consolidated Statements of Income.

**Note 3: Securities**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
<b>September 30, 2020:</b>					
<b>Debt securities available for sale</b>					
U.S. Treasury securities	\$ 29,442	\$ 495	\$ —	\$ —	\$ 29,937
Obligations of U.S. government corporations and agencies	76,021	2,512	(55)	—	78,478
Obligations of states and political subdivisions	304,749	11,380	(9)	—	316,120
Commercial mortgage-backed securities	346,543	10,804	(104)	—	357,243
Residential mortgage-backed securities	1,192,131	26,699	(304)	—	1,218,526
Corporate debt securities	78,930	1,619	(4)	—	80,545
Total	\$ 2,027,816	\$ 53,509	\$ (476)	\$ —	\$ 2,080,849

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2019:</b>				
<b>Debt securities available for sale</b>				
U.S. Treasury securities	\$ 51,472	\$ 265	\$ —	\$ 51,737
Obligations of U.S. government corporations and agencies	160,364	2,684	(48)	163,000
Obligations of states and political subdivisions	262,492	5,810	(11)	268,291
Commercial mortgage-backed securities	137,733	1,700	(146)	139,287
Residential mortgage-backed securities	912,308	10,282	(624)	921,966
Corporate debt securities	102,696	1,280	—	103,976
Total	\$ 1,627,065	\$ 22,021	\$ (829)	\$ 1,648,257

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

	Debt securities available for sale	
	Amortized Cost	Fair Value
<b>September 30, 2020:</b>		
Due in one year or less	\$ 148,312	\$ 149,872
Due after one year through five years	210,254	219,106
Due after five years through ten years	260,947	272,794
Due after ten years	1,408,303	1,439,077
<b>Total</b>	<b>\$ 2,027,816</b>	<b>\$ 2,080,849</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Gross security gains	\$ 11	\$ 298	\$ 1,718	\$ 689
Gross security (losses)	—	(1)	(8)	(585)
Net gains (losses) on sales of securities <sup>(1)</sup>	\$ 11	\$ 297	\$ 1,710	\$ 104

<sup>(1)</sup> Net gains (losses) on sales of securities reported on the unaudited Consolidated Statements of Income includes sale of equity securities, excluded in this table.

Debt securities with carrying amounts of \$591.7 million and \$704.4 million on September 30, 2020 and December 31, 2019, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

The following information pertains to debt securities with gross unrealized losses, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (*dollars in thousands*):

	Less than 12 months, gross		12 months or more, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2020:</b>						
<b>Debt securities available for sale</b>						
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of U.S. government corporations and agencies	—	—	5,479	(55)	5,479	(55)
Obligations of states and political subdivisions	3,810	(9)	—	—	3,810	(9)
Commercial mortgage-backed securities	53,690	(104)	—	—	53,690	(104)
Residential mortgage-backed securities	152,298	(301)	838	(3)	153,136	(304)
Corporate debt securities	7,563	(4)	—	—	7,563	(4)
Total temporarily impaired securities	\$ 217,361	\$ (418)	\$ 6,317	\$ (58)	\$ 223,678	\$ (476)

	Less than 12 months, gross		12 months or more, gross		Total, gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2019:</b>						
<b>Debt securities available for sale</b>						
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of U.S. government corporations and agencies	6,362	(48)	—	—	6,362	(48)
Obligations of states and political subdivisions <sup>(1)</sup>	4,981	(11)	1,548	—	6,529	(11)
Commercial mortgage-backed securities	33,322	(144)	2,044	(2)	35,366	(146)
Residential mortgage-backed securities	78,326	(245)	50,259	(379)	128,585	(624)
Corporate debt securities	—	—	—	—	—	—
Total temporarily impaired securities	\$ 122,991	\$ (448)	\$ 53,851	\$ (381)	\$ 176,842	\$ (829)

(1) Unrealized losses for 12 months or more, gross, was less than one thousand dollars.

Debt securities available for sale are not within the scope of CECL, however, the accounting for credit losses on these securities is affected by ASC 326-30. As of September 30, 2020, the Company's debt security portfolio consisted of 1,190 securities. The total number of debt securities in the investment portfolio in an unrealized loss position as of September 30, 2020 was 37 and represented an unrealized loss of 0.21% of the aggregate fair value. The unrealized losses relate to changes in market interest rates and market conditions that do not represent credit-related impairments. Furthermore, 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 debt securities. Full collection of the amounts due according to the contractual terms of the debt securities is expected; therefore, the impairment related to noncredit factors is recognized in accumulated other comprehensive income (loss), net of applicable taxes, at September 30, 2020. As of September 30, 2020, the Company did not hold general obligation bonds of any single issuer, the aggregate of which exceeded 10% of the Company's stockholders' equity.

#### Note 4: Portfolio loans

The distribution of portfolio loans is as follows (*dollars in thousands*):

	September 30, 2020	December 31, 2019
Commercial	\$ 2,281,031	\$ 1,748,368
Commercial real estate	2,912,408	2,793,417
Real estate construction	407,266	401,861
Retail real estate	1,480,520	1,693,769
Retail other	40,086	49,834
Portfolio loans	\$ 7,121,311	\$ 6,687,249
Allowance	(98,841)	(53,748)
Portfolio loans, net	\$ 7,022,470	\$ 6,633,501

Net deferred loan origination fees included in the balances above were \$(6.0) million as of September 30, 2020 compared to \$6.2 million of net deferred loan origination costs as of December 31, 2019. Net accretable purchase accounting adjustments included in the balances above reduced loans by \$13.2 million as of September 30, 2020 and \$20.2 million as of December 31, 2019. The September 30, 2020 commercial balance includes loans originated under PPP with an amortized cost of \$736.4 million.

During the first quarter of 2020, the Company purchased \$43.9 million of retail real estate loans. There were no purchases during the second or third quarters of 2020.

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 acceptable credits, ranging from investment or near investment grade, to loans made to borrowers who exhibit credit fundamentals that meet or exceed industry standards.
- *Watch*- This category includes loans that warrant a higher than average level of monitoring to ensure that weaknesses do not cause the inability of the credit to perform as expected. These loans are not necessarily a problem due to other inherent strengths of the credit, such as guarantor strength, but have above average concern and monitoring.
- *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.
- *Substandard Non-accrual*- This category includes 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. 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.

The following table is a summary of risk grades segregated by category of portfolio loans. September 30, 2020 includes purchase discounts and clearings in the pass rating. December 31, 2019 excludes purchase discounts and clearings. (dollars in thousands):

	September 30, 2020				
	Pass	Watch	Special Mention	Substandard	Substandard Non-accrual
Commercial	\$ 2,011,113	\$ 145,817	\$ 82,942	\$ 33,247	\$ 7,912
Commercial real estate	2,541,455	255,447	71,315	37,052	7,139
Real estate construction	376,787	26,820	603	2,797	259
Retail real estate	1,452,145	10,960	4,069	4,848	8,498
Retail other	39,996	—	—	—	90
Total	\$ 6,421,496	\$ 439,044	\$ 158,929	\$ 77,944	\$ 23,898

  

	December 31, 2019				
	Pass	Watch	Special Mention	Substandard	Substandard Non-accrual
Commercial	\$ 1,458,416	\$ 172,526	\$ 66,337	\$ 41,273	\$ 9,096
Commercial real estate	2,477,398	186,963	105,487	26,204	9,178
Real estate construction	351,923	45,262	3,928	737	630
Retail real estate	1,661,691	9,125	5,355	7,001	8,935
Retail other	47,698	—	—	—	57
Total	\$ 5,997,126	\$ 413,876	\$ 181,107	\$ 75,215	\$ 27,896

Risk grades of portfolio loans, further sorted by origination year at September 30, 2020 is as follows (*dollars in thousand*):

As of September 30, 2020	Term Loans Amortized Cost Basis by Origination Year						Revolving loans	Total
	2020	2019	2018	2017	2016	Prior		
<b>Commercial:</b>								
Risk rating								
Pass	\$ 1,029,324	\$ 173,103	\$ 117,434	\$ 100,388	\$ 67,473	\$ 87,096	\$ 436,295	\$ 2,011,113
Watch	24,601	21,566	16,918	14,606	3,488	13,653	50,985	145,817
Special Mention	6,011	2,572	2,166	7,181	6,853	14,949	43,210	82,942
Substandard	8,450	3,578	2,528	4,437	935	1,292	12,027	33,247
Substandard non-accrual	348	3,076	586	540	792	70	2,500	7,912
Total commercial	\$ 1,068,734	\$ 203,895	\$ 139,632	\$ 127,152	\$ 79,541	\$ 117,060	\$ 545,017	\$ 2,281,031
<b>Commercial real estate:</b>								
Risk rating								
Pass	\$ 557,205	\$ 565,460	\$ 425,448	\$ 439,438	\$ 215,498	\$ 315,026	\$ 23,380	\$ 2,541,455
Watch	52,304	71,844	62,609	28,787	21,629	18,186	88	255,447
Special Mention	8,429	14,981	5,479	12,664	6,096	23,170	496	71,315
Substandard	19,809	4,662	1,197	7,165	2,137	1,587	495	37,052
Substandard non-accrual	923	795	1,939	1,475	287	1,720	—	7,139
Total commercial real estate	\$ 638,670	\$ 657,742	\$ 496,672	\$ 489,529	\$ 245,647	\$ 359,689	\$ 24,459	\$ 2,912,408
<b>Real estate construction:</b>								
Risk rating								
Pass	\$ 107,927	\$ 188,254	\$ 60,326	\$ 1,188	\$ 568	\$ 1,868	\$ 16,656	\$ 376,787
Watch	17,661	4,266	2,515	2,205	173	—	—	26,820
Special Mention	592	11	—	—	—	—	—	603
Substandard	2,577	—	47	25	148	—	—	2,797
Substandard non-accrual	—	—	256	—	—	3	—	259
Total real estate construction	\$ 128,757	\$ 192,531	\$ 63,144	\$ 3,418	\$ 889	\$ 1,871	\$ 16,656	\$ 407,266
<b>Retail real estate:</b>								
Risk rating								
Pass	\$ 273,752	\$ 180,799	\$ 152,772	\$ 158,192	\$ 157,611	\$ 293,570	\$ 235,449	\$ 1,452,145
Watch	1,570	2,090	1,255	320	570	255	4,900	10,960
Special Mention	516	—	70	589	1,975	919	—	4,069
Substandard	1,642	100	330	82	770	1,655	269	4,848
Substandard non-accrual	275	81	697	688	239	4,929	1,589	8,498
Total retail real estate	\$ 277,755	\$ 183,070	\$ 155,124	\$ 159,871	\$ 161,165	\$ 301,328	\$ 242,207	\$ 1,480,520
<b>Retail other:</b>								
Risk rating								
Pass	\$ 6,974	\$ 10,695	\$ 6,798	\$ 3,336	\$ 961	\$ 777	\$ 10,455	\$ 39,996
Watch	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Substandard non-accrual	15	7	—	2	1	64	1	90
Total retail other	\$ 6,989	\$ 10,702	\$ 6,798	\$ 3,338	\$ 962	\$ 841	\$ 10,456	\$ 40,086

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

	September 30, 2020			
	Loans past due, still accruing			Non-accrual Loans
	30-59 Days	60-89 Days	90+Days	
Commercial	\$ 53	\$ —	\$ —	\$ 7,912
Commercial real estate	74	294	—	7,139
Real estate construction	—	—	—	259
Retail real estate	4,606	1,558	262	8,498
Retail other	98	25	17	90
Total	\$ 4,831	\$ 1,877	\$ 279	\$ 23,898

	December 31, 2019			
	Loans past due, still accruing			Non-accrual Loans
	30-59 Days	60-89 Days	90+Days	
Commercial	\$ 1,075	\$ 1,014	\$ 199	\$ 9,096
Commercial real estate	2,653	3,121	584	9,178
Real estate construction	19	—	—	630
Retail real estate	5,021	1,248	828	8,935
Retail other	52	68	—	57
Total	\$ 8,820	\$ 5,451	\$ 1,611	\$ 27,896

The gross interest income that would have been recorded in the three months ended September 30, 2020 and 2019 if non-accrual loans and 90+ days past due loans had been current in accordance with their original terms was \$0.5 million. The gross interest income that would have been recorded in the nine months ended September 30, 2020 and 2019 if non-accrual loans and 90+ days past due loans had been current in accordance with their original terms was \$1.4 million and \$1.6 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 nine months ended September 30, 2020 and 2019.

A summary of troubled debt restructurings (“TDR”) loans is as follows (*dollars in thousands*):

	September 30,		December 31,	
	2020		2019	
In compliance with modified terms	\$	3,927	\$	5,005
30 — 89 days past due		291		—
Included in non-performing loans		1,253		702
Total	\$	5,471	\$	5,707

Loans newly classified as a TDR in compliance with modified terms during the three months ended September 30, 2020, included one retail real estate loan for payment modification with a recorded investment of \$0.2 million. Loans newly classified as a TDR in compliance with modified terms during the nine months ended September 30, 2020, included two retail real estate loans for payment modifications with a recorded investment of \$0.4 million. Loans newly classified as a TDR in compliance with modified terms during the three months ended September 30, 2019, included one commercial loan for short-term interest rate relief, with a recorded investment of \$0.3 million. Loans newly classified as a TDR in compliance with modified terms during the nine months ended September 30, 2019, included one commercial loan for payment modification with a recorded investment of \$0.6 million and one commercial loan for short-term interest rate relief, with a recorded investment of \$0.3 million.

The gross interest income that would have been recorded in the three and nine months ended September 30, 2020 and 2019 if TDRs had performed in accordance with their original terms compared with their modified terms was insignificant.

There were no TDRs that were entered into during the last 12 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 nine months ended September 30, 2020. One commercial real estate TDR, with a recorded investment of \$3.2 million, that was entered into during the prior 12 months, was subsequently classified as non-performing and had payment defaults during the nine months ended September 30, 2019.

Modified loans with payment deferrals that fall under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) or revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions that suspended requirements under GAAP related to TDR classification are not included in the Company’s TDR totals.

At September 30, 2020, the Company had \$1.2 million of residential real estate in the process of foreclosure. The Company has elected to follow the Federal Housing Finance Agency guidelines on single-family foreclosures and real

estate owned evictions on portfolio loans. The agency has extended the moratoriums on single-family foreclosures and real estate owned evictions until at least December 31, 2020 which will delay many foreclosures into 2021.

The following tables provide details of loans evaluated individually, segregated by category. With the adoption of CECL, the Company only evaluated loans with disparate risk characteristics on an individual basis. The unpaid contractual principal balance represents the customer outstanding balance excluding any partial charge-offs. The amortized cost represents customer balances net of any partial charge-offs recognized on the loan. The average amortized cost is calculated using the most recent four quarters (*dollars in thousands*).

	September 30, 2020					
	Unpaid Contractual Principal Balance	Amortized Cost with No Allowance	Amortized Cost with Allowance	Total Amortized Cost	Related Allowance	Average Amortized Cost
Commercial	\$ 15,464	\$ 2,554	\$ 5,205	\$ 7,759	\$ 1,694	\$ 8,746
Commercial real estate	9,047	7,737	594	8,331	236	11,613
Real estate						
construction	569	552	—	552	—	709
Retail real estate	5,285	4,578	474	5,052	474	9,059
Retail other	—	—	—	—	—	23
Total	\$ 30,365	\$ 15,421	\$ 6,273	\$ 21,694	\$ 2,404	\$ 30,150

	December 31, 2019					
	Unpaid Contractual Principal Balance	Amortized Cost with No Allowance	Amortized Cost with Allowance	Total Amortized Cost	Related Allowance	Average Amortized Cost
Commercial	\$ 14,415	\$ 4,727	\$ 5,026	\$ 9,753	\$ 3,330	\$ 13,774
Commercial real estate	14,487	9,883	2,039	11,922	1,049	16,678
Real estate						
construction	1,116	974	—	974	—	873
Retail real estate	15,581	13,898	474	14,372	474	14,003
Retail other	87	58	—	58	—	42
Total	\$ 45,686	\$ 29,540	\$ 7,539	\$ 37,079	\$ 4,853	\$ 45,370

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. Collateral dependent loans are loans in which repayment is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. Loans are written down to the lower of cost or fair value of underlying collateral, less estimated costs to sell. As of September 30, 2020, there were \$17.5 million of collateral dependent loans which are secured by real estate or business assets.

Management estimates the allowance balance using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Company's historical loss experience beginning in 2010. As of September 30, 2020, the Company expects the markets in which it operates to experience declines in economic conditions and increases in the unemployment rates and levels of delinquencies over the next 12 months. Management adjusted the historical loss experience for these expectations with an immediate reversion to historical loss rate beyond this forecast period. PPP loans were excluded from the allowance calculation as they are 100% government guaranteed.

The following table details activity in the allowance. 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 September 30, 2020						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	\$ 24,146	\$ 42,680	\$ 7,792	\$ 20,405	\$ 1,023	\$ 96,046
Provision for credit losses	2,593	3,703	(381)	(383)	17	5,549
Charged-off	(2,500)	(569)	(18)	(139)	(171)	(3,397)
Recoveries	124	103	26	301	89	643
Ending balance	\$ 24,363	\$ 45,917	\$ 7,419	\$ 20,184	\$ 958	\$ 98,841

As of and for the Nine Months Ended September 30, 2020						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance, prior to adoption of ASC 326	\$ 18,291	\$ 21,190	\$ 3,204	\$ 10,495	\$ 568	\$ 53,748
Adoption of ASC 326	715	9,306	2,954	3,292	566	16,833
Provision for credit losses	10,739	17,090	1,082	6,635	110	35,656
Charged-off	(5,682)	(1,833)	(18)	(1,139)	(575)	(9,247)
Recoveries	300	164	197	901	289	1,851
Ending balance	\$ 24,363	\$ 45,917	\$ 7,419	\$ 20,184	\$ 958	\$ 98,841

As of and for the Three Months Ended September 30, 2019						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	\$ 16,733	\$ 20,188	\$ 3,305	\$ 10,613	536	\$ 51,375
Provision for loan losses	463	3,167	(359)	(86)	226	3,411
Charged-off	(817)	(1,168)	—	(226)	(288)	(2,499)
Recoveries	147	33	164	221	113	678
Ending balance	\$ 16,526	\$ 22,220	\$ 3,110	\$ 10,522	\$ 587	\$ 52,965

As of and for the Nine Months Ended September 30, 2019						
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
Beginning balance	\$ 17,829	\$ 21,137	\$ 2,723	\$ 8,471	\$ 488	\$ 50,648
Provision for loan losses	3,417	1,981	54	2,212	375	8,039
Charged-off	(5,187)	(1,183)	—	(943)	(596)	(7,909)
Recoveries	467	285	333	782	320	2,187
Ending balance	\$ 16,526	\$ 22,220	\$ 3,110	\$ 10,522	\$ 587	\$ 52,965



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The following table presents the allowance and amortized cost of portfolio loans by category (*dollars in thousands*):

	As of September 30, 2020					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
<b>Allowance</b>						
Ending balance attributed to:						
Loans individually evaluated for impairment	\$ 1,694	\$ 236	\$ —	\$ 474	\$ —	\$ 2,404
Loans collectively evaluated for impairment	22,669	45,681	7,419	19,710	958	96,437
<b>Ending balance</b>	<b>\$ 24,363</b>	<b>\$ 45,917</b>	<b>\$ 7,419</b>	<b>\$ 20,184</b>	<b>\$ 958</b>	<b>\$ 98,841</b>
<b>Loans:</b>						
Loans individually evaluated for impairment	\$ 7,759	\$ 6,415	\$ 297	\$ 4,666	\$ —	\$ 19,137
Loans collectively evaluated for impairment	2,273,272	2,904,077	406,714	1,475,468	40,086	7,099,617
PCD loans evaluated for impairment	—	1,916	255	386	—	2,557
<b>Ending balance</b>	<b>\$ 2,281,031</b>	<b>\$ 2,912,408</b>	<b>\$ 407,266</b>	<b>\$ 1,480,520</b>	<b>\$ 40,086</b>	<b>\$ 7,121,311</b>
	As of December 31, 2019					
	Commercial	Commercial Real Estate	Real Estate Construction	Retail Real Estate	Retail Other	Total
<b>Allowance</b>						
Ending balance attributed to:						
Loans individually evaluated for impairment	\$ 3,330	\$ 1,049	\$ —	\$ 474	\$ —	\$ 4,853
Loans collectively evaluated for impairment	14,961	20,141	3,204	10,021	568	48,895
<b>Ending balance</b>	<b>\$ 18,291</b>	<b>\$ 21,190</b>	<b>\$ 3,204</b>	<b>\$ 10,495</b>	<b>\$ 568</b>	<b>\$ 53,748</b>
<b>Loans:</b>						
Loans individually evaluated for impairment	\$ 9,740	\$ 10,018	\$ 539	\$ 13,676	\$ 58	\$ 34,031
Loans collectively evaluated for impairment	1,738,615	2,781,495	400,887	1,679,397	49,776	6,650,170
PCI loans evaluated for impairment	13	1,904	435	696	—	3,048
<b>Ending balance</b>	<b>\$ 1,748,368</b>	<b>\$ 2,793,417</b>	<b>\$ 401,861</b>	<b>\$ 1,693,769</b>	<b>\$ 49,834</b>	<b>\$ 6,687,249</b>

**Note 5: Deposits**

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

	September 30, 2020	December 31, 2019
Demand deposits, noninterest-bearing	\$ 2,595,075	\$ 1,832,619
Interest-bearing transaction deposits	2,266,338	1,989,854
Saving deposits and money market deposits	2,553,521	2,545,073
Time deposits	1,227,767	1,534,850
<b>Total</b>	<b>\$ 8,642,701</b>	<b>\$ 7,902,396</b>

The Company held brokered saving deposits and money market deposits of \$11.0 million and \$12.5 million at September 30, 2020 and December 31, 2019, respectively.

The aggregate amount of time deposits with a minimum denomination of \$100,000 was approximately \$641.0 million and \$854.1 million at September 30, 2020 and December 31, 2019, respectively. The aggregate amount of time deposits with a minimum denomination that meets or exceeds the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000 was approximately \$234.1 million and \$297.4 million at September 30, 2020 and December 31, 2019, respectively. The Company held brokered time deposits of \$5.3 million and \$5.5 million at September 30, 2020 and December 31, 2019, respectively.

As of September 30, 2020, the scheduled maturities of time deposits are as follows (*dollars in thousands*):

October 1, 2020 - September 30, 2021	\$ 803,854
October 1, 2021 - September 30, 2022	260,163
October 1, 2022 - September 30, 2023	81,550
October 1, 2023 - September 30, 2024	63,121
October 1, 2024 - September 30, 2025	19,065
Thereafter	14
	<b>\$ 1,227,767</b>

**Note 6: Borrowings**

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature daily. 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. Securities sold under agreements to repurchase were \$201.6 million at September 30, 2020 with a weighted average rate of 0.17%.

Short-term borrowings include \$4.7 million of FHLB advances which mature in less than one year from date of origination.

On January 29, 2019, the Company entered into an Amended and Restated Credit Agreement providing for a \$60.0 million term loan (the "Term Loan") with a maturity date of November 30, 2023. The Term Loan had an annual interest rate of one-month LIBOR plus a spread of 1.50%. The proceeds of the Term Loan were used to fund the cash consideration related to the acquisition of Banc Ed. The Company, at its option, repaid the balance of the Term Loan during the first quarter of 2020.

The Amended and Restated Credit Agreement also retained the Company's \$20.0 million revolving facility with a maturity date of April 30, 2019. On April 19, 2019, the Company entered into an amendment to the Amended and Restated Credit Agreement to extend the maturity of its revolving loan facility to April 30, 2020. On April 24, 2020, the revolving loan facility maturity was extended one year to April 30, 2021 with an annual interest rate of one-month LIBOR plus a spread of 1.75%. The revolving facility incurs a non-usage fee based on the undrawn amount. The Company had no outstanding balance under the revolving facility on September 30, 2020 or December 31, 2019.

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

	September 30, 2020	December 31, 2019
Notes payable, FHLB, original maturity of 5 years, collateralized by FHLB deposits, residential and commercial real estate loans and FHLB stock.	\$ 4,931	\$ 35,600
Term Loan	—	48,000
<b>Total long-term debt</b>	<b>\$ 4,931</b>	<b>\$ 83,600</b>

As of September 30, 2020, long-term debt from the FHLB consisted of a variable-rate note maturing May 2023, with an interest rate of 3.04%. As of December 31, 2019, funds borrowed from the FHLB, listed above, consisted of variable-rate notes maturing through September 2024, with interest rates ranging from 1.25% to 3.04%. The weighted average rate on the long-term advances was 1.53% as of December 31, 2019.

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. The senior notes are not subject to optional redemption by the Company. 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, bear interest at an annual rate of 4.75% for the first five years after issuance and thereafter bear interest at a floating rate equal to three-month LIBOR plus a spread of 2.919%, as calculated on each applicable determination date. 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 on 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 issued in 2017 totaled \$0.2 million and \$0.7 million, respectively, at September 30, 2020. Unamortized debt issuance costs related to the senior notes and subordinated notes issued in 2017 totaled \$0.3 million and \$0.8 million, respectively, at December 31, 2019.

To further enhance the Company's strong capital and liquidity positions, on June 1, 2020, the Company issued \$125.0 million of fixed-to-floating rate subordinated notes that mature on June 1, 2030. The subordinated notes, which qualify as Tier 2 capital for First Busey, bear interest at an annual rate of 5.25% for the first five years after issuance and thereafter bear interest at a floating rate equal to a three-month benchmark rate plus a spread of 5.11%, as calculated on each applicable determination date. The subordinated notes are payable semi-annually on each June 1 and December 1, during the five-year fixed-term, and thereafter on March 1, June 1, September 1 and December 1 of each year, commencing on September 1, 2025. The subordinated notes have an optional redemption in whole or in part on any interest payment date on or after June 1, 2025. The subordinated notes are unsecured obligations of the Company. Unamortized debt issuance costs related to the subordinated notes issued in 2020 totaled \$2.2 million at September 30, 2020.

**Note 7: Earnings Per Common Share**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 30,829	\$ 24,828	\$ 71,999	\$ 74,382
Shares:				
Weighted average common shares outstanding	54,586	55,410	54,579	54,783
Dilutive effect of outstanding options, warrants and restricted stock units as determined by the application of the treasury stock method	152	236	217	275
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	54,738	55,646	54,796	55,058
Basic earnings per common share	\$ 0.56	\$ 0.45	\$ 1.32	\$ 1.36
Diluted earnings per common share	\$ 0.56	\$ 0.45	\$ 1.31	\$ 1.35
Common stock equivalents excluded from the earning per common share calculations because their effect would have been anti-dilutive	300	237	300	385

Basic earnings per share is computed by dividing net income 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 is computed using the treasury stock method and reflects the potential dilution that could occur if the Company's outstanding stock options and warrants were exercised and restricted stock units were vested.

**Note 8: Accumulated Other Comprehensive Income (Loss)**

The following table represents changes in accumulated other comprehensive income (loss) by component, net of tax, for the periods below (*dollars in thousands*):

	Three Months Ended September 30,					
	2020			2019		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains (losses) on debt securities available for sale:						
Balance at beginning of period	\$ 55,436	\$ (15,802)	\$ 39,634	\$ 20,459	\$ (5,832)	\$ 14,627
Unrealized holding gains (losses) on debt securities available for sale, net	(2,392)	682	(1,710)	4,991	(1,423)	3,568
Amounts reclassified from accumulated other comprehensive income, net	(11)	3	(8)	(297)	85	(212)
Balance at end of period	<u>\$ 53,033</u>	<u>\$ (15,117)</u>	<u>\$ 37,916</u>	<u>\$ 25,153</u>	<u>\$ (7,170)</u>	<u>\$ 17,983</u>
Unrealized gains (losses) on cash flow hedges:						
Balance at beginning of period	\$ (3,633)	\$ 1,036	\$ (2,597)	\$ —	\$ —	\$ —
Unrealized holding gains (losses) on cash flow hedges, net	20	(6)	14	(837)	239	(598)
Amounts reclassified from accumulated other comprehensive income, net	268	(76)	192	9	(3)	6
Balance at end of period	<u>\$ (3,345)</u>	<u>\$ 954</u>	<u>\$ (2,391)</u>	<u>\$ (828)</u>	<u>\$ 236</u>	<u>\$ (592)</u>
Total accumulated other comprehensive income (loss)	<u>\$ 49,688</u>	<u>\$ (14,163)</u>	<u>\$ 35,525</u>	<u>\$ 24,325</u>	<u>\$ (6,934)</u>	<u>\$ 17,391</u>

	Nine Months Ended September 30,					
	2020			2019		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Unrealized gains (losses) on debt securities available for sale:						
Balance at beginning of period	\$ 21,192	\$ (6,032)	\$ 15,160	\$ (9,528)	\$ 2,716	\$ (6,812)
Unrealized holding gains (losses) on debt securities available for sale, net	33,551	(9,577)	23,974	30,005	(8,552)	21,453
Unrealized losses on debt securities transferred from held to maturity to available for sale	—	—	—	4,780	(1,363)	3,417
Amounts reclassified from accumulated other comprehensive income, net	(1,710)	492	(1,218)	(104)	29	(75)
Balance at end of period	<u>\$ 53,033</u>	<u>\$ (15,117)</u>	<u>\$ 37,916</u>	<u>\$ 25,153</u>	<u>\$ (7,170)</u>	<u>\$ 17,983</u>
Unrealized gains (losses) on cash flow hedges:						
Balance at beginning of period	\$ (280)	\$ 80	\$ (200)	\$ —	\$ —	\$ —
Unrealized holding gains (losses) on cash flow hedges, net	(3,123)	890	(2,233)	(837)	239	(598)
Amounts reclassified from accumulated other comprehensive income, net	58	(16)	42	9	(3)	6
Balance at end of period	<u>\$ (3,345)</u>	<u>\$ 954</u>	<u>\$ (2,391)</u>	<u>\$ (828)</u>	<u>\$ 236</u>	<u>\$ (592)</u>
Total accumulated other comprehensive income (loss)	<u>\$ 49,688</u>	<u>\$ (14,163)</u>	<u>\$ 35,525</u>	<u>\$ 24,325</u>	<u>\$ (6,934)</u>	<u>\$ 17,391</u>

**Note 9: Share-based Compensation**

The First Busey 2020 Equity Incentive Plan (the “2020 Equity Plan”) was approved by stockholders at the 2020 Annual Meeting of Stockholders. A description of the 2020 Equity Plan can be found in the Company’s Proxy Statement for the 2020 Annual Meeting of Stockholders filed on April 9, 2020. The 2020 Equity Plan replaces the 2010 Equity Incentive Plan and the First Community Financial Partners, Inc. 2016 Equity Incentive Plan, which from time to time, the Company used to grant equity awards to legacy employees of First Community Financial Partners, Inc. Under the terms

of the 2020 Equity Plan, the Company has granted restricted stock units, deferred stock units and performance-based restricted stock unit awards.

The Company grants restricted stock units to members of management periodically throughout the year. Each restricted stock unit is equivalent to one share of the Company's common stock. These units have requisite service periods ranging from one to five years, subject to accelerated vesting upon eligible retirement from the Company. Recipients earn quarterly dividend equivalents on their respective units which entitle the recipients to additional units. Therefore, dividends earned each quarter compound based upon the updated unit balances.

The Company grants deferred stock units, which are restricted stock units with a deferred settlement date, to its directors and advisory directors. Each deferred stock unit is equivalent to one share of the Company's common stock. The deferred stock units vest over a one-year period following the grant date. These units generally are subject to the same terms as restricted stock units under the Company's 2020 Equity 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. After vesting and prior to delivery, these units will continue to earn dividend equivalents.

The Company also grants performance-based restricted stock unit awards to members of management periodically throughout the year. Each performance-based restricted stock unit is equivalent to one share of the Company's common stock. The number of units that ultimately vest will be determined based on the achievement of the market performance goal, subject to accelerated vesting upon eligible retirement from the Company.

The Company has outstanding stock options assumed from acquisitions.

Upon vesting/delivery, shares are expected (though not required) to be issued from treasury.

#### *Stock Option Plan*

A summary of the status of and changes in the Company's stock option awards for the nine months ended September 30, 2020 follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of period	53,185	\$ 22.00	
Exercised	(12,956)	22.73	
Forfeited	—	—	
Expired	(1,144)	21.35	
Outstanding at end of period	39,085	\$ 23.53	6.13
Exercisable at end of period	39,085	\$ 23.53	6.13

The Company did not record any stock option compensation expense for the three or nine months ended September 30, 2020. The Company recorded an insignificant amount and \$0.1 million of stock option compensation expense for the three and nine months ended September 30, 2019, respectively, related to the converted options from First Community Financial Partners, Inc.

*Restricted Stock Unit, Deferred Stock Unit and Performance-Based Restricted Stock Unit Awards*

A summary of the changes in the Company's restricted stock unit and deferred stock unit awards for the nine months ended September 30, 2020, 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 period	778,317	\$ 27.27	21,261	\$ 26.78
Granted	384,343	17.26	33,419	17.17
Dividend equivalents earned	29,265	19.21	3,235	19.35
Vested	(117,641)	21.38	(24,066)	25.95
Forfeited	(66,132)	26.42	—	—
Non-vested at end of period	1,008,152	\$ 23.97	33,849	\$ 17.17
Outstanding at end of period	1,008,152	\$ 23.97	70,186	\$ 24.41

On February 5, 2020, under the terms of the 2010 Equity Incentive Plan, the Company granted 3,808 restricted stock units to a member of management. The grant date fair value of the award totaled \$0.1 million and will be recognized as compensation expense over the three-year requisite service period. Subsequent to the requisite service period, the awards will become 100% vested.

On July 7, 2020, under the terms of the 2020 Equity Incentive Plan, the Company granted 380,535 restricted stock units to members of management, including the Vice-Chairman of the Board. The grant date fair value of the award totaled \$6.5 million and will be recognized as compensation expense over the requisite service period ranging from one year to five years. The terms of these awards included an accelerated vesting provision upon eligible retirement from the Company and added the accelerated vesting provision to all previously issued and outstanding awards. Subsequent to the requisite service period, the awards will become 100% vested. Further, the Company granted 33,419 deferred stock units to directors and advisory directors. The grant date fair value of the award totaled \$0.6 million and will be recognized as compensation expense over the requisite service period of one year. Subsequent to the requisite service period, the awards will become 100% vested.

The Company recognized \$2.2 million and \$1.2 million of compensation expense related to non-vested restricted stock units and deferred stock units for the three months ended September 30, 2020 and 2019, respectively. The Company recognized \$4.4 million and \$3.1 million of compensation expense related to non-vested restricted stock units and deferred stock units for the nine months ended September 30, 2020 and 2019, respectively. The expense for the three and nine months ended September 30, 2020 increased over the same period of 2019, primarily as a result of the addition of the retirement vesting provision which resulted in acceleration of compensation expense related to participants who met the retirement eligibility criteria. As of September 30, 2020, there was \$13.4 million of total unrecognized compensation cost related to these non-vested stock awards. This cost is expected to be recognized over a weighted average period of 3.0 years.

During the third quarter of 2020, the Company granted a target of 15,724 performance-based restricted stock units with a maximum of 25,158 units. The actual number of units issued at the vest date could range from 0% to 160% of the initial grant, depending on attaining the market performance goal. The grant date fair value of the award is estimated to be \$0.3 million, and will be recognized in compensation expense over the performance period ending December 31, 2022. The Company expects to finalize the grant date fair value of these awards in the fourth quarter of 2020.

As of September 30, 2020, 1,429,696 shares remain available for issuance pursuant to the Company's 2020 Equity Incentive Plan and 18,711 shares remain available for issuance pursuant to the Company's Employee Stock Purchase Plan.

**Note 10: 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*

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*):

	September 30, 2020	December 31, 2019
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,721,099	\$ 1,649,565
Standby letters of credit	41,791	42,581

Upon adoption of CECL, the Company recorded a \$5.5 million reserve for unfunded commitments. The Company recorded provision expense of \$0.3 million and \$1.8 million in the three and nine months ended September 30, 2020, respectively, in other non-interest expense for a total unfunded reserve of \$7.3 million as of September 30, 2020.

**Note 11: Regulatory Capital**

The Company and Busey Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. The capital amounts and classification also are subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Banking regulations identify five capital categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of September 30, 2020 and December 31, 2019, all capital ratios of the Company and Busey Bank exceeded the well capitalized levels under the applicable regulatory capital adequacy guidelines. Management believes that no events or changes have occurred subsequent to September 30, 2020 that would change this designation.

On March 27, 2020, the FDIC and other federal banking agencies published an interim final rule that provides those banking organizations adopting CECL during 2020 with the option to delay for two years the estimated impact of CECL on regulatory capital and to phase in the aggregate impact of the deferral on regulatory capital over a subsequent three year period. On August 26, 2020, the CECL final rule was finalized and was substantially similar to the interim final rule. Under this final rule, because the Company has elected to use the deferral option, the regulatory capital impact of our transition adjustments recorded on January 1, 2020 from the adoption of CECL will be deferred for two years. In addition, 25 percent of the ongoing impact of CECL on our allowance for credit losses, retained earnings, and average total consolidated assets from January 1, 2020 through the end of the two-year deferral period, each as reported for regulatory capital purposes, will be added to the deferred transition amounts ("adjusted transition amounts") and deferred for the two-year period. At the conclusion of the two-year period (January 1, 2022), the adjusted transition amounts will be phased-in for regulatory capital purposes at a rate of 25 percent per year, with the phased-in amounts included in regulatory capital at the beginning of each year.

On June 1, 2020, the Company issued \$125.0 million of fixed-to-floating rate subordinated notes that mature on June 1, 2030, which qualify as Tier 2 capital for regulatory purposes.



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The following tables summarize the applicable holding company and bank regulatory capital requirements (*dollars in thousands*):

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2020:</b>						
<u>Total Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 1,225,719	16.63 %	\$ 589,691	8.00 %	\$ 737,114	10.00 %
Busey Bank	\$ 1,095,863	14.89 %	\$ 588,690	8.00 %	\$ 735,862	10.00 %
<u>Tier 1 Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 964,399	13.08 %	\$ 442,268	6.00 %	\$ 589,691	8.00 %
Busey Bank	\$ 1,019,543	13.86 %	\$ 441,517	6.00 %	\$ 588,690	8.00 %
<u>Common Equity Tier 1 Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 890,399	12.08 %	\$ 331,701	4.50 %	\$ 479,124	6.50 %
Busey Bank	\$ 1,019,543	13.86 %	\$ 331,138	4.50 %	\$ 478,310	6.50 %
<u>Tier 1 Capital (to Average Assets)</u>						
Consolidated	\$ 964,399	9.39 %	\$ 410,850	4.00 %	N/A	N/A
Busey Bank	\$ 1,019,543	9.93 %	\$ 410,669	4.00 %	\$ 513,336	5.00 %
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2019:</b>						
<u>Total Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 1,036,143	14.03 %	\$ 590,826	8.00 %	\$ 738,532	10.00 %
Busey Bank	\$ 1,099,449	14.92 %	\$ 589,681	8.00 %	\$ 737,101	10.00 %
<u>Tier 1 Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 922,395	12.49 %	\$ 443,120	6.00 %	\$ 590,826	8.00 %
Busey Bank	\$ 1,045,701	14.19 %	\$ 442,261	6.00 %	\$ 589,681	8.00 %
<u>Common Equity Tier 1 Capital (to Risk Weighted Assets)</u>						
Consolidated	\$ 848,395	11.49 %	\$ 332,340	4.50 %	\$ 480,046	6.50 %
Busey Bank	\$ 1,045,701	14.19 %	\$ 331,696	4.50 %	\$ 479,116	6.50 %
<u>Tier 1 Capital (to Average Assets)</u>						
Consolidated	\$ 922,395	9.88 %	\$ 373,360	4.00 %	N/A	N/A
Busey Bank	\$ 1,045,701	11.19 %	\$ 373,639	4.00 %	\$ 467,049	5.00 %

In July 2013, the U.S. federal banking authorities approved the Basel III Rule for strengthening international capital standards. The Basel III Rule introduced a capital conservation buffer, composed entirely of Common Equity Tier 1 Capital (“CET1”), which is added to the minimum risk-weighted asset ratios. The capital conservation buffer is not a

minimum capital requirement; however, banking institutions with a ratio of CET1 to risk-weighted assets below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments based on the amount of the shortfall. In order to refrain from restrictions on dividends, equity repurchases and discretionary bonus payments, banking institutions must maintain minimum ratios of (i) CET1 to risk-weighted assets of at least 7.00%, (ii) tier 1 capital to risk-weighted assets of at least 8.50%, and (iii) total capital to risk-weighted assets of at least 10.50%.

## Note 12: 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 banking center network in Illinois, the St. Louis, Missouri metropolitan area, southwest Florida and through its banking center 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 information 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 "Note 1. Significant Accounting Policies" to Form 10-K. The Company accounts for intersegment revenue and transfers at current market value.

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

	Goodwill		Total Assets	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Banking	\$ 288,436	\$ 288,436	\$ 10,457,479	\$ 9,632,368
Remittance Processing	8,992	8,992	46,124	44,209
Wealth Management	14,108	14,108	42,593	32,760
Other	—	—	(6,568)	(13,608)
Totals	\$ 311,536	\$ 311,536	\$ 10,539,628	\$ 9,695,729

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Net interest income:</b>				
Banking	\$ 73,330	\$ 75,955	\$ 218,221	\$ 222,537
Remittance Processing	21	20	59	56
Wealth Management	—	—	—	—
Other	(3,598)	(2,499)	(8,281)	(7,306)
Total net interest income	\$ 69,753	\$ 73,476	\$ 209,999	\$ 215,287
<b>Non-interest income:</b>				
Banking	\$ 18,523	\$ 18,301	\$ 45,717	\$ 46,743
Remittance Processing	4,287	4,088	12,318	12,386
Wealth Management	10,662	8,994	32,681	27,721
Other	(1,187)	(447)	(2,950)	(2,073)
Total non-interest income	\$ 32,285	\$ 30,936	\$ 87,766	\$ 84,777
<b>Non-interest expense:</b>				
Banking	\$ 44,863	\$ 56,593	\$ 135,037	\$ 158,659
Remittance Processing	3,523	2,746	9,669	8,099
Wealth Management	6,497	6,043	19,725	17,356
Other	1,659	2,739	5,693	9,190
Total non-interest expense	\$ 56,542	\$ 68,121	\$ 170,124	\$ 193,304
<b>Income before income taxes:</b>				
Banking	\$ 41,441	\$ 34,252	\$ 93,245	\$ 102,582
Remittance Processing	785	1,362	2,708	4,343
Wealth Management	4,165	2,951	12,956	10,365
Other	(6,444)	(5,685)	(16,924)	(18,569)
Total income before income taxes	\$ 39,947	\$ 32,880	\$ 91,985	\$ 98,721
<b>Net income:</b>				
Banking	\$ 31,744	\$ 25,731	\$ 72,653	\$ 76,837
Remittance Processing	578	972	1,966	3,102
Wealth Management	3,166	2,184	9,847	7,670
Other	(4,659)	(4,059)	(12,467)	(13,227)
Total net income	\$ 30,829	\$ 24,828	\$ 71,999	\$ 74,382

**Note 13: Derivative Financial Instruments**

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. Additionally, the Company enters into 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 investors and interest rate swaps with customers and other third parties. See “Note 14: Fair Value Measurements” for further discussion of the fair value measurement of such derivatives.

*Interest Rate Swaps Designated as Cash Flow Hedges:* Starting in the third quarter of 2019, the Company entered into derivative instruments designated as cash flow hedges. For derivative instruments that are designated and qualify as a

cash flow hedge, the change in fair value of the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Change in fair value of components excluded from the assessment of effectiveness are recognized in current earnings.

Interest rate swaps with notional amounts totaling \$70.0 million as of September 30, 2020 and December 31, 2019 were designated as cash flow hedges to hedge the risk of variability in cash flows (future interest payments) attributable to changes in the contractually specified 3 month LIBOR benchmark interest rate on the Company's junior subordinated debt owed to unconsolidated trusts and were determined to be highly effective during the period. The gross aggregate fair value of the swaps of \$3.3 million and \$0.3 million is recorded in other liabilities in the unaudited Consolidated Balance Sheets at September 30, 2020 and December 31, 2019, respectively, with changes in fair value recorded net of tax in other comprehensive income (loss). The Company expects the hedges to remain highly effective during the remaining terms of the swaps.

A summary of the interest-rate swaps designated as cash flow hedges is presented below (*dollars in thousands*):

	September 30, 2020		December 31, 2019	
Notional amount	\$	70,000	\$	70,000
Weighted average fixed pay rates		1.80 %		1.80 %
Weighted average variable 3 month LIBOR receive rates		0.25 %		1.90 %
Weighted average maturity		3.11 yrs		3.86 yrs
Unrealized gains (losses), net of tax	\$	(2,391)	\$	(200)

Interest expense recorded on these swap transactions were \$0.3 million and \$0.5 million during the three and nine months ended September 30, 2020, respectively. The Company expects \$0.3 million of the unrealized loss to be reclassified from Other Comprehensive Income (Loss) ("OCI") to interest expense during the next 3 months. This reclassified amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations and the addition of other hedges subsequent to September 30, 2020.

The following table presents the net gains (losses) recorded in accumulated other comprehensive income (loss) and the unaudited Consolidated Statements of Income relating to cash flow derivative instruments for the period presented (*dollars in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest rate contracts				
Amount of gain (loss) recognized in OCI	\$ 14	\$ (598)	\$ (2,233)	\$ (598)
Amount of (gain) loss reclassified from OCI to interest expense	192	6	42	6

The Company pledged \$3.5 million and \$0.3 million in cash to secure its obligation under these contracts at September 30, 2020 and December 31, 2019, respectively.

**Interest Rate Lock Commitments.** At September 30, 2020 and December 31, 2019, the Company had issued \$57.8 million and \$69.1 million, respectively, 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 September 30, 2020 and December 31, 2019, the Company had issued \$141.9 million and \$135.3 million, respectively, 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 serve 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. 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 unaudited Consolidated Balance Sheets are summarized as follows (*dollars in thousands*):

	September 30, 2020	December 31, 2019
Fair value recorded in other assets	\$ 1,567	\$ 1,046
Fair value recorded in other liabilities	4,036	2,187

The gross gains and losses on these derivative assets and liabilities related to interest rate lock commitments and forward sales commitments recorded in non-interest income in the unaudited Consolidated Statements of Income are summarized as follows (*dollars in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Gross gains	\$ 4,014	\$ 1,655	\$ 15,379	\$ 4,662
Gross (losses)	(4,036)	(1,706)	(16,354)	(4,773)
Net gains (losses)	\$ (22)	\$ (51)	\$ (975)	\$ (111)

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 Not Designated as Hedges.* The Company may offer derivative contracts to its customers in connection with their risk management needs. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer. With notional values of \$791.1 million and \$580.8 million at September 30, 2020 and December 31, 2019, respectively, these contracts support variable rate, commercial loan relationships totaling \$395.5 million and \$290.4 million, respectively. These derivatives generally worked together as an economic interest rate hedge, but 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 derivatives for customers for interest rate swaps recorded in the unaudited Consolidated Balance Sheets are summarized as follows (*dollars in thousands*):

	September 30, 2020	December 31, 2019
Fair value recorded in other assets	\$ 38,144	\$ 12,354
Fair value recorded in other liabilities	38,144	12,354

The changes in fair value of these derivative assets and liabilities is recorded in non-interest expense in the unaudited Consolidated Statements of Income and summarized as follows (*dollars in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest rate swaps - pay floating, receive fixed	\$ (549)	\$ 4,695	\$ 25,790	\$ 15,205
Interest rate swaps - pay fixed, receive floating	549	(4,695)	(25,790)	(15,205)
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The Company pledged \$40.1 million and \$18.1 million in cash to secure its obligation under these contracts at September 30, 2020 and December 31, 2019, respectively.

**Note 14: 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 (exit price) 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. 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.

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. 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.

*Debt Securities Available for Sale.* Debt securities classified as available for sale are reported at fair value utilizing level 2 measurements. The Company obtains fair value measurements from an independent pricing service. 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, focusing on observable market data such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations.

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. 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.

*Equity Securities.* Equity securities are reported at fair value utilizing level 1 or level 2 measurements. For mutual funds, 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. For stock, quoted prices for identical or similar assets in markets that are not active are utilized and classified as level 2.

*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.

*Derivative Assets and Derivative Liabilities.* Derivative assets and derivative liabilities are reported at fair value utilizing level 2 measurements. The fair value of derivative assets and liabilities is determined based on prices that are obtained from a third-party which uses observable market inputs. Derivative assets and liabilities are classified as level 2.

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

September 30, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b><i>Debt securities available for sale</i></b>				
U.S. Treasury securities	\$ —	\$ 29,937	\$ —	\$ 29,937
Obligations of U.S. government corporations and agencies	—	78,478	—	78,478
Obligations of states and political subdivisions	—	316,120	—	316,120
Commercial mortgage-backed securities	—	357,243	—	357,243
Residential mortgage-backed securities	—	1,218,526	—	1,218,526
Corporate debt securities	—	80,545	—	80,545
<b><i>Equity securities</i></b>	13,119	4,689	—	17,808
<b><i>Loans held for sale</i></b>	—	87,772	—	87,772
<b><i>Derivative assets</i></b>	—	39,711	—	39,711
<b><i>Derivative liabilities</i></b>	—	45,525	—	45,525

December 31, 2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
<b>Debt securities available for sale</b>				
U.S. Treasury securities	\$ —	\$ 51,737	\$ —	\$ 51,737
Obligations of U.S. government corporations and agencies	—	163,000	—	163,000
Obligations of states and political subdivisions	—	268,291	—	268,291
Commercial mortgage-backed securities	—	139,287	—	139,287
Residential mortgage-backed securities	—	921,966	—	921,966
Corporate debt securities	—	103,976	—	103,976
<b>Equity securities</b>	—	5,952	—	5,952
<b>Loans held for sale</b>	—	68,699	—	68,699
<b>Derivative assets</b>	—	13,400	—	13,400
<b>Derivative liabilities</b>	—	14,821	—	14,821

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).

*Loans Evaluated Individually.* The Company does not record portfolio loans at fair value on a recurring basis. However, periodically, a loan is evaluated individually and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. If the collateral value is not sufficient, a specific reserve is recorded. 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, the fair value of individually evaluated collateral dependent loans have been classified as level 3.

*OREO.* Non-financial assets 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. Due to the significance of the unobservable inputs, all OREO fair values have been classified as level 3.

*Bank Property Held for Sale.* Bank property held for sale represents certain banking center office buildings which the Company has closed and consolidated with other existing banking centers. Bank property held for sale is measured at the lower of amortized cost or fair value less estimated costs to sell. The fair values were based upon discounted appraisals or real estate listing price. Due to the significance of the unobservable inputs, all bank property held for sale fair values have been classified as level 3.

The following table summarizes assets and liabilities measured at fair value on a non-recurring basis, 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
<b>September 30, 2020</b>				
Loans evaluated individually	\$ —	\$ —	\$ 3,869	\$ 3,869
OREO	—	—	79	79
Bank property held for sale	—	—	3,594	3,594
<b>December 31, 2019</b>				
Loans evaluated individually	\$ —	\$ —	\$ 2,686	\$ 2,686
OREO	—	—	55	55
Bank property held for sale	—	—	4,004	4,004



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*):

<b>Quantitative Information about Level 3 Fair Value Measurements</b>				
	<b>Fair Value Estimate</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
<b>September 30, 2020</b>				
Loans evaluated individually	\$ 3,869	Appraisal of collateral	Appraisal adjustments	-20.0% to -100% (-38.3)%
OREO	79	Appraisal of collateral	Appraisal adjustments	-25.0% to -100% (-64.5)%
Bank property held for sale	3,594	Appraisal of collateral or real estate listing price	Appraisal adjustments	-6.2% to -64.9% (-23.9)%
<b>December 31, 2019</b>				
Loans evaluated individually	\$ 2,686	Appraisal of collateral	Appraisal adjustments	-2.9% to -100% (-57.8)%
OREO	55	Appraisal of collateral	Appraisal adjustments	-25.0% to -100% (-65.0)%
Bank property held for sale	4,004	Appraisal of collateral or real estate listing price	Appraisal adjustments	-6.2% to -71.3% (-40.7)%

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The estimated fair values of financial instruments that are reported at amortized cost in the Company's unaudited 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*):

	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Level 1 inputs:				
Cash and cash equivalents	\$ 479,721	\$ 479,721	\$ 529,288	\$ 529,288
Level 2 inputs:				
Accrued interest receivable	37,609	37,609	27,109	27,109
Level 3 inputs:				
Portfolio loans, net	7,022,470	7,055,886	6,633,501	6,648,560
Mortgage servicing rights	11,982	12,570	12,326	18,193
Other servicing rights	1,199	1,696	1,071	1,740
<b>Financial liabilities:</b>				
Level 2 inputs:				
Time deposits	\$ 1,227,767	\$ 1,243,305	\$ 1,534,850	\$ 1,538,597
Securities sold under agreements to repurchase	201,641	201,641	205,491	205,491
Short-term borrowings	4,651	4,651	8,551	8,552
Long-term debt	4,931	5,218	83,600	83,614
Junior subordinated debt owed to unconsolidated trusts	71,427	57,793	71,308	74,153
Accrued interest payable	6,648	6,648	5,000	5,000
Level 3 inputs:				
Senior notes, net of unamortized issuance costs	39,775	40,099	39,674	40,099
Subordinated notes, net of unamortized issuance costs	182,095	184,944	59,248	61,514

**Note 15: Leases**

The Company has operating leases consisting primarily of equipment leases and real estate leases. The Company leases real estate property for banking centers, ATM locations, and office space with terms extending through 2032. As of September 30, 2020, the Company reported \$7.3 million of right-of-use asset and \$7.3 million lease liability in its unaudited Consolidated Balance Sheets.

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The following tables represents lease costs and other lease information for the periods presented (*dollars in thousands*):

<b>Lease Costs</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating lease costs	\$ 622	\$ 619	\$ 1,877	\$ 1,736
Variable lease costs	99	133	401	363
Short-term lease costs	15	46	45	69
Sublease income	-	-	-	-
Net lease cost	\$ 736	\$ 798	\$ 2,323	\$ 2,168

**Other information**

Cash paid for amounts included in the measurement of lease liabilities:

Operating lease cash flows – Fixed payments	\$ 616	\$ 605	\$ 1,839	\$ 1,688
Operating lease cash flows – Liability reduction	546	526	1,610	1,479
Right of use assets obtained during the period in exchange for operating lease liabilities	—	159	128	923
Weighted average lease term (in years)	6.43	6.73	6.43	6.73
Weighted average discount rate	3.08%	3.04%	3.08%	3.04%

At September 30, 2020, the Company was obligated under noncancelable operating leases for office space and other commitments. Rent expense under operating leases, included in net occupancy and equipment expense, was \$0.7 million and \$0.8 million for the three months ended September 30, 2020 and 2019, respectively and \$2.3 million and \$2.2 million for the nine months ended September 30, 2020 and 2019, respectively.

Rent commitments were as follows (*dollars in thousands*):

	<b>As of</b>
	<b>September 30, 2020</b>
Remainder of 2020	\$ 542
2021	1,693
2022	1,288
2023	1,129
2024	894
Thereafter	2,647
Amounts representing interest	(851)
Present value of net future minimum lease payments	\$ 7,342

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist readers in understanding the financial condition and results of operations of the Company during the three and nine months ended September 30, 2020 and should be read in conjunction with the Company's unaudited consolidated financial statements and notes thereto included in this Form 10-Q, as well as the Company's 2019 Form 10-K.

### EXECUTIVE SUMMARY

#### *Impact of COVID-19*

In the face of the challenges and risks posed by COVID-19, the Company remains resolute in its focus on protecting the strength and flexibility of its balance sheet. The progression of the COVID-19 pandemic in the United States began to negatively impact the Company's results of operations during the first quarter of 2020. In future quarters, COVID-19 is expected to have a complex and continued adverse impact on the economy, the banking industry and First Busey, all subject to a high degree of uncertainty as it relates to both timing and severity. Primary areas of potential future impact to the Company may include further margin compression, increased provision expense, a deterioration in credit quality and lower fees for customer services.

#### *Effects on Our Market Areas.*

Our commercial and consumer banking products and services are delivered in Illinois, Missouri, Indiana and Florida. Each state has experienced a dramatic increase in unemployment claims as a result of the curtailment of business activities. Each state has taken different steps to reopen after COVID-19 thrust the country into lockdown starting in March 2020, and reopening across jurisdictions is subject to changes or further delays based on case monitoring in each state.

#### *Policy and Regulatory Developments*

Federal, state and local governments and regulatory authorities have enacted and issued a range of policy responses to the COVID-19 pandemic, including the following:

- The Federal Reserve decreased the range for the Federal Funds Target Rate by 0.50% on March 3, 2020, and by another 1.0% on March 16, 2020.
- On March 27, 2020, President Trump signed the CARES Act, which established a \$2.0 trillion economic stimulus package, including cash payments to individuals, supplemental unemployment insurance benefits and a \$349 billion loan program administered through the U.S. Small Business Administration ("SBA"), referred to as PPP. Under the PPP, small businesses, sole proprietorships, independent contractors and self-employed individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to limitations and eligibility criteria. On April 24, 2020, President Trump signed the Paycheck Protection Program and Health Care Enhancement Act, which authorized an additional \$310 billion of PPP loans. The Bank participated as a lender in the PPP. In addition, the CARES Act provides financial institutions the option to temporarily suspend certain requirements under GAAP related to TDRs for a limited period of time to account for the effects of COVID-19.
- On April 7, 2020, federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. Further, the statement made it clear that institutions generally do not need to categorize COVID-19-related modifications as TDRs if certain requirements are met and that the

agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs.

- On April 9, 2020, the Federal Reserve announced additional measures aimed at supporting small and mid-sized business, as well as state and local governments impacted by COVID-19. The Federal Reserve announced the Main Street Business Lending Program, which provides for five loan facilities with total potential funding of up to \$600 billion. The Main Street New Loan Facility ("MSNLF"), the Main Street Priority Loan Facility ("MSPLF") and the Main Street Expanded Loan Facility ("MSELF") are three credit facilities that provide eligible business borrowers impacted by COVID-19 with financing in amounts of \$250 thousand to \$300 million depending on facility. Similarly, the Nonprofit Organization New Loan Facility ("NONLF") and the Nonprofit Organization Expanded Loan Facility ("NOELF") provide eligible not-for-profit organizations with financing in amounts of \$250 thousand to \$10 million. As of September 30, 2020, the Company had not participated in the Main Street Business Lending Program.

### *Effects on Our Business*

The COVID-19 pandemic will continue to have a significant impact on our business. In particular, we anticipate that a significant portion of the Bank's borrowers in the hotel, restaurant, transportation, long-term healthcare and retail industries will continue to endure significant economic distress. This will adversely affect their ability to repay existing indebtedness, and could adversely impact the value of collateral pledged to Busey Bank. These developments, together with economic conditions generally, are also expected to impact our commercial real estate portfolio, particularly with respect to real estate with exposure to these industries, our consumer loan business and loan portfolio, and the value of certain collateral securing our loans. As a result, we anticipate that our financial condition, capital levels and results of operations could be significantly adversely affected.

### *Our Response*

We have taken, and continue to take, numerous steps in response to the COVID-19 pandemic, including the following:

- First Busey offered an internal Financial Relief Program to qualifying customers designed to alleviate some of the financial hardships that they faced as a result of COVID-19. This program offered solutions for all types of customers—including retail, personal loan and mortgage—as well as commercial clients and small businesses. The program included options for loan payment deferrals as well as certain fee waivers. As of September 30, 2020, the Company had 301 commercial loans on payment deferrals representing \$426.4 million in loans, 565 mortgage and personal loans on payment deferrals representing \$82.4 million in loans and an additional 520 deferrals for \$63.7 million of mortgage loans in the serviced portfolio.
- First Busey has served as a bridge for the PPP, actively helping existing and new business customers sign up for this important financial resource. At September 30, 2020, First Busey had \$749.4 million in PPP loans outstanding, with an amortized cost of \$736.4 million, representing 4,569 new and existing customers.
- First Busey initiated its pandemic response plan, expanding social-distancing practices and remote work capabilities to ensure the safety of its associates. The Company has also instituted a new Emergency Sick Leave policy for all full-time and part-time associates.
- First Busey has reopened all of its banking center lobbies with safety measurements in place as of October 5, 2020.
- First Busey suspended open-market share repurchases under its share repurchase plan on March 16, 2020.
- First Busey completed a successful public offering on June 1, 2020 of \$125.0 million of 5.25% fixed-to-floating rate subordinated notes due in 2030. This enhanced the Company's strong liquidity position and qualifies as Tier 2 capital for regulatory purposes.

## **Operating Results**

Net income for First Busey for the third quarter of 2020 was \$30.8 million, or \$0.56 per diluted common share, as compared to \$25.8 million, or \$0.47 per diluted common share, for the second quarter of 2020 and \$24.8 million, or \$0.45 per diluted common share, for the third quarter of 2019. Adjusted net income<sup>(1)</sup> for the third quarter of 2020 was \$32.8 million, or \$0.60 per diluted common share, as compared to \$26.2 million, or \$0.48 per diluted common share, for the second quarter of 2020 and \$30.5 million, or \$0.55 per diluted common share, for the third quarter of 2019. For the third quarter of 2020, annualized return on average assets and annualized return on average tangible common equity<sup>(1)</sup> were 1.15% and 13.92%, respectively. Based on adjusted net income<sup>(1)</sup>, annualized return on average assets was 1.22% and annualized return on average tangible common equity<sup>(1)</sup> was 14.81% for the third quarter of 2020.

Pre-provision net revenue<sup>(1)</sup> for the third quarter of 2020 was \$45.9 million as compared to \$45.4 million for the second quarter of 2020 and \$35.9 million for the third quarter of 2019. Adjusted pre-provision net revenue<sup>(1)</sup> for the third quarter of 2020 was \$48.7 million as compared to \$46.4 million for the second quarter of 2020 and \$43.6 million for the third quarter of 2019. Pre-provision net revenue to average assets<sup>(1)</sup> for the third quarter of 2020 was 1.71% as compared to 1.76% for the second quarter of 2020 and 1.48% for the third quarter of 2019. Adjusted pre-provision net revenue to average assets<sup>(1)</sup> for the third quarter of 2020 was 1.81% as compared to 1.80% for the second quarter of 2020 and 1.79% for the third quarter of 2019.

The Company continues to navigate the economic environment caused by the COVID-19 pandemic effectively and prudently. Our balance sheet strength remains robust with sound and stable asset quality, strong capital levels and substantial liquidity. Nevertheless, we remain vigilant, given that the negative impacts of COVID-19 are expected to continue in future quarters as the course of the economic recovery remains unclear and further fiscal stimulus is uncertain. These negative impacts may include further margin compression, increased provision expense, a deterioration in asset quality and lower fees for customer services.

As of the quarter ended September 30, 2020, the Company's total assets exceeded \$10 billion due to PPP loans and other factors. If the Company remains over \$10 billion in assets at year-end, it will begin to face limitations on interchange fees and heightened supervision and regulation in 2021.

On January 1, 2020, the Company adopted the CECL methodology. During the third quarter of 2020, the Company recorded provision for credit losses of \$5.5 million and provision for unfunded commitments of \$0.3 million primarily as a result of economic factors and uncertainty due to COVID-19.

The Company views certain non-operating items, including acquisition-related and restructuring charges, as adjustments to net income reported under GAAP. Non-operating pre-tax adjustments for the third quarter of 2020 included \$0.3 million of expenses related to prior acquisitions and \$2.2 million of other restructuring costs. The Company believes that non-GAAP measures (including adjusted pre-provision net revenue, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets, adjusted net interest margin, adjusted efficiency ratio, tangible common equity, tangible common equity to tangible assets, tangible book value per share and return on average tangible common equity), facilitate the assessment of its financial results and peer comparability. A reconciliation of these non-GAAP measures is included in tabular form in this Quarterly Report on Form 10-Q in the "Non-GAAP Financial Information" section.

On January 31, 2019, the Company completed its acquisition of Banc Ed. TheBANK, Banc Ed's wholly-owned bank subsidiary, was operated as a separate subsidiary from the completion of the acquisition until October 4, 2019 when it was merged with and into Busey Bank.

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<sup>(1)</sup> A non-GAAP financial measure, see "Non-GAAP Financial Information" included in this Quarterly Report on Form 10-Q.

### ***Banking Center Consolidation Plan and Operating Model Reorganization***

After careful consideration and analysis, the Company decided in July 2020 to consolidate 12 branches to ensure a balance between the Company's physical banking center network and robust digital banking services. An efficient banking center footprint and strategic service models are necessary to keep First Busey competitive and responsive. These 12 banking centers closed on October 23, 2020. When fully realized, annualized expense savings net of expected associated revenue impacts are anticipated to be approximately \$3.3 million with the impact of these cost savings beginning to be realized in the fourth quarter of 2020. Non-operating pre-tax expenses in salaries, wages and employee benefits in relation to the branch closings were \$0.6 million during the third quarter of 2020, with an additional \$0.1 million expected in the fourth quarter of 2020. The Company anticipates additional one-time expenses related to the banking center consolidation plan in the fourth quarter of 2020 as we finalize the fair value estimates related to the disposition of these banking centers. We currently estimate those remaining non-operating pre-tax expenses related to the consolidation to be in the range of \$7.0 million to \$7.5 million.

The operating model reorganization is consistent with the Company's continued efforts to transition to a regional operating model that enhances sales organization alignment across our key business lines and improves efficiencies. Non-operating pre-tax expenses in salaries, wages and employee benefits related to the reorganization were \$1.4 million during the third quarter of 2020. These efforts are currently anticipated to provide approximately \$3.6 million in annual pre-tax non-interest expense savings when fully realized.

### ***Banking Center Markets***

At September 30, 2020, Busey Bank had 61 banking centers in Illinois. Eight of the Illinois banking centers were closed on October 23, 2020. Our Illinois markets feature several Fortune 1000 companies. Those organizations, coupled with large healthcare and higher education sectors, anchor the communities in which they are located and have provided a comparatively stable foundation for housing, employment and small business. However, the financial condition of the state of Illinois, in which the largest portion of the Company's customer base resides, is characterized by low credit ratings and budget deficits.

At September 30, 2020, Busey Bank had 13 banking centers in Missouri. Three of the Missouri banking centers were closed on October 23, 2020. St. Louis, Missouri has a diverse economy with major employment sectors including health care, financial services, professional and business services, and retail. Fourteen of our banking centers in Illinois are located within the boundaries of the St. Louis Metropolitan Statistical Area as of October 23, 2020.

At September 30, 2020, Busey Bank had five banking centers in southwest Florida, an area which has experienced above average population growth, job growth and an expanded housing market over the last several years. One of the Florida banking centers was closed on October 23, 2020.

At September 30, 2020, Busey Bank had one banking center in the Indianapolis, Indiana area, which is the most populous city of Indiana with a diverse economy, including the headquarters of many large corporations.

### ***Net Interest Income***

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

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes an income tax rate of 21%. 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 (*dollars in thousands*), 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. All average information is provided on a daily average basis.



**CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES  
(UNAUDITED)**

	Three Months Ended September 30,					
	2020			2019		
	Average Balance	Income/ Expense	Yield/ Rate <sup>(5)</sup>	Average Balance	Income/ Expense	Yield/ Rate <sup>(5)</sup>
<b>Assets</b>						
Interest-bearing bank deposits and federal funds sold	\$ 715,899	\$ 213	0.12 %	\$ 400,587	\$ 2,181	2.16 %
Investment securities:						
U.S. Government obligations	112,867	593	2.09 %	278,612	1,688	2.40 %
Obligations of states and political subdivisions <sup>(1)</sup>	301,796	2,122	2.80 %	287,659	2,118	2.92 %
Other securities	1,409,664	7,195	2.03 %	1,213,795	7,936	2.59 %
Loans held for sale	104,965	662	2.51 %	42,418	298	2.79 %
Portfolio loans <sup>(1), (2)</sup>	7,160,757	69,481	3.86 %	6,558,519	78,248	4.73 %
Total interest-earning assets <sup>(1), (3)</sup>	<u>\$ 9,805,948</u>	<u>\$ 80,266</u>	3.26 %	<u>\$ 8,781,590</u>	<u>\$ 92,469</u>	4.18 %
Cash and due from banks	120,198			115,378		
Premises and equipment	145,948			150,714		
Allowance	(97,127)			(52,014)		
Other assets	706,028			664,101		
Total assets	<u>\$ 10,680,995</u>			<u>\$ 9,659,769</u>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing transaction deposits	\$ 2,312,804	\$ 774	0.13 %	\$ 1,953,201	\$ 2,924	0.59 %
Savings and money market deposits	2,557,732	869	0.14 %	2,442,620	3,828	0.62 %
Time deposits	1,298,841	4,462	1.37 %	1,690,557	8,001	1.88 %
Federal funds purchased and repurchase agreements	190,046	88	0.18 %	184,637	579	1.24 %
Borrowings <sup>(4)</sup>	263,736	2,943	4.44 %	215,271	2,031	3.74 %
Junior subordinated debt issued to unconsolidated trusts	71,402	740	4.12 %	71,232	852	4.75 %
Total interest-bearing liabilities	<u>\$ 6,694,561</u>	<u>\$ 9,876</u>	0.59 %	<u>\$ 6,557,518</u>	<u>\$ 18,215</u>	1.10 %
Net interest spread <sup>(1)</sup>			<u>2.67 %</u>			<u>3.08 %</u>
Noninterest-bearing deposits	2,592,130			1,780,645		
Other liabilities	145,856			108,773		
Stockholders' equity	1,248,448			1,212,833		
Total liabilities and stockholders' equity	<u>\$ 10,680,995</u>			<u>\$ 9,659,769</u>		
Interest income / earning assets <sup>(1), (3)</sup>	\$ 9,805,948	\$ 80,266	3.26 %	\$ 8,781,590	\$ 92,469	4.18 %
Interest expense / earning assets	\$ 9,805,948	\$ 9,876	0.40 %	\$ 8,781,590	\$ 18,215	0.83 %
Net interest margin <sup>(1)</sup>		<u>\$ 70,390</u>	<u>2.86 %</u>		<u>\$ 74,254</u>	<u>3.35 %</u>

(1) On a tax-equivalent basis and assuming an income tax rate of 21%.

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

(3) Interest income includes a tax-equivalent adjustment of \$0.6 million and \$0.8 million for the three months ended September 30, 2020 and 2019, respectively.

(4) Includes short-term and long-term borrowings. Interest expense includes a non-usage fee on revolving loan.

(5) Annualized.

**CONSOLIDATED AVERAGE BALANCE SHEETS AND INTEREST RATES  
(UNAUDITED)**

	Nine Months Ended September 30,					
	2020			2019		
	Average Balance	Income/ Expense	Yield/ Rate <sup>(5)</sup>	Average Balance	Income/ Expense	Yield/ Rate <sup>(5)</sup>
<b>Assets</b>						
Interest-bearing bank deposits and federal funds sold	\$ 506,235	\$ 1,596	0.42 %	\$ 279,406	\$ 4,496	2.15 %
Investment securities:						
U.S. Government obligations	144,807	2,359	2.18 %	321,814	5,905	2.45 %
Obligations of states and political subdivisions <sup>(1)</sup>	286,097	6,228	2.91 %	282,850	6,236	2.95 %
Other securities	1,329,557	22,597	2.27 %	1,195,405	23,817	2.66 %
Loans held for sale	91,964	1,880	2.73 %	28,326	677	3.20 %
Portfolio loans <sup>(1), (2)</sup>	7,012,497	212,721	4.05 %	6,406,779	228,539	4.77 %
Total interest-earning assets <sup>(1), (3)</sup>	<u>\$ 9,371,157</u>	<u>\$ 247,381</u>	3.53 %	<u>\$ 8,514,580</u>	<u>\$ 269,670</u>	4.23 %
Cash and due from banks	119,987			111,623		
Premises and equipment	148,697			146,115		
Allowance for loan losses	(84,213)			(51,498)		
Other assets	693,950			631,452		
Total assets	<u>\$ 10,249,578</u>			<u>\$ 9,352,272</u>		
<b>Liabilities and Stockholders' Equity</b>						
Interest-bearing transaction deposits	\$ 2,131,608	\$ 4,165	0.26 %	\$ 1,825,473	\$ 7,891	0.58 %
Savings and money market deposits	2,558,053	5,265	0.27 %	2,350,289	10,113	0.58 %
Time deposits	1,418,944	16,623	1.56 %	1,709,142	23,403	1.83 %
Federal funds purchased and repurchase agreements	185,528	596	0.43 %	194,189	1,789	1.23 %
Borrowings <sup>(4)</sup>	213,101	6,427	4.03 %	223,352	6,297	3.77 %
Junior subordinated debt issued to unconsolidated trusts	71,353	2,220	4.16 %	71,194	2,658	4.99 %
Total interest-bearing liabilities	<u>\$ 6,578,587</u>	<u>\$ 35,296</u>	0.72 %	<u>\$ 6,373,639</u>	<u>\$ 52,151</u>	1.09 %
Net interest spread <sup>(1)</sup>			<u>2.81 %</u>			<u>3.14 %</u>
Noninterest-bearing deposits	2,303,538			1,715,701		
Other liabilities	134,105			89,719		
Stockholders' equity	1,233,348			1,173,213		
Total liabilities and stockholders' equity	<u>\$ 10,249,578</u>			<u>\$ 9,352,272</u>		
Interest income / earning assets <sup>(1), (3)</sup>	\$ 9,371,157	\$ 247,381	3.53 %	\$ 8,514,580	\$ 269,670	4.23 %
Interest expense / earning assets	\$ 9,371,157	\$ 35,296	0.51 %	\$ 8,514,580	\$ 52,151	0.81 %
Net interest margin <sup>(1)</sup>		<u>\$ 212,085</u>	<u>3.02 %</u>		<u>\$ 217,519</u>	<u>3.42 %</u>

(1) On a tax-equivalent basis and assuming an income tax rate of 21%.

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

(3) Interest income includes a tax-equivalent adjustment of \$2.1 million and \$2.2 million for the nine months ended September 30, 2020 and 2019.

(4) Includes short-term and long-term borrowings. Interest expense includes a non-usage fee on revolving loan.

(5) Annualized.

### **Earning Assets, Sources of Funds and Net Interest Margin**

Total average interest-earning assets increased \$1.0 billion, or 11.7%, to \$9.8 billion for the three months ended September 30, 2020, as compared to \$8.8 billion for the same period in 2019. The average amortized cost balance of PPP loans in the third quarter of 2020 was \$734.2 million. Total average interest-bearing liabilities increased \$137.0 million to \$6.7 billion for the three months ended September 30, 2020, as compared to the same period in 2019. Average noninterest-bearing deposits increased \$811.5 million, or 45.6%, to \$2.6 billion for the three months ended September 30, 2020, as compared to \$1.8 billion for the same period of 2019. Total average interest-earning assets increased \$856.6 million, or 10.1%, to \$9.4 billion for the nine months ended September 30, 2020, as compared to \$8.5 billion for the same period in 2019. Total average interest-bearing liabilities increased \$204.9 million to \$6.6 billion for the nine months ended September 30, 2020, as compared to \$6.4 billion for the same period of 2019.

Net interest income, on a tax-equivalent basis, decreased \$3.9 million to \$70.4 million for the three months ended September 30, 2020 as compared to \$74.3 million for the same period of 2019, and decreased \$5.4 million to \$212.1 million for the nine months ended September 30, 2020 as compared to \$217.5 million for the same period of 2019.

Net interest margin, our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, decreased to 2.86% for the three months ended September 30, 2020, as compared to 3.35% for the same period of 2019 and 3.02% for the nine months ended September 30, 2020, compared to 3.42% for the same period of 2019. Excluding purchase accounting accretion,<sup>(1)</sup> the net interest margin for the three months ended September 30, 2020 was 2.75%, a decrease from 3.22% for the same period in 2019, and was 2.91% for the nine months ended September 30, 2020 compared to 3.27% for the same period of 2019.

The Federal Open Market Committee (“FOMC”) lowered Federal Funds Target Rates for the first time in 11 years on July 31, 2019, and then again on September 18, 2019 and October 30, 2019, for a combined decrease of 75 basis points during 2019. In response to the potential economic risks posed by COVID-19, the FOMC took further action during the first quarter of 2020 by lowering the Federal Funds Target Rate by 50 basis points on March 3, 2020, followed by an additional 100 basis point reduction on March 15, 2020. These rate cuts contributed to the reported decline in net interest margin, as assets, in particular commercial loans, repriced more quickly and to a greater extent than liabilities.

Other factors contributing to the reported decline in net interest margin during the third quarter of 2020 include the sizeable balance of lower-yielding PPP loans, the Company’s significant liquidity position and the issuance of subordinated debt completed during the second quarter, with those impacts partially offset by the Company’s efforts to lower deposit funding costs. The quarterly net interest margins were as follows:

	2020	2019
First Quarter	3.20 %	3.46 %
Second Quarter	3.03 %	3.43 %
Third Quarter	2.86 %	3.35 %
Fourth Quarter	— %	3.27 %

The net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 2.67% for the three months ended September 30, 2020, as compared to 3.08% in the same period of 2019 and was 2.81% for the nine months ended September 30, 2020 as compared to 3.14% in the same period of 2019.

Management attempts to mitigate the effects of the interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. However, as a result of the reductions in the target interest rate, as well as the impact of the COVID-19 pandemic, our net interest income and margin may continue to decline in future periods. Please refer to the Notes to Consolidated Financial Statements in the Company’s 2019 Form 10-K for a description of accounting policies underlying the recognition of interest income and expense.

<sup>(1)</sup> A non-GAAP financial measure, see “Non-GAAP Financial Information” included in this Quarterly Report on Form 10-Q.

**Non-Interest Income**
*(dollars in thousands):*

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
Wealth management fees	\$ 10,548	\$ 8,821	\$ 1,727	19.6 %	\$ 32,296	\$ 27,338	\$ 4,958	18.1 %
Fees for customer services	8,014	9,842	(1,828)	(18.6)%	23,400	27,635	(4,235)	(15.3)%
Remittance processing	3,995	3,780	215	5.7 %	11,466	11,277	189	1.7 %
Mortgage revenue	5,793	3,331	2,462	73.9 %	9,879	8,127	1,752	21.6 %
Income on bank owned life insurance	1,022	1,573	(551)	(35.0)%	4,361	4,653	(292)	(6.3)%
Net gains (losses) on sales of securities	11	296	(285)	(96.3)%	1,710	112	1,598	NM
Unrealized gains (losses) recognized on equity securities	(437)	65	(502)	NM	(1,234)	(735)	(499)	(67.9)%
Other income	3,339	3,228	111	3.4 %	5,888	6,370	(482)	(7.6)%
Total non-interest income	\$ 32,285	\$ 30,936	\$ 1,349	4.4 %	\$ 87,766	\$ 84,777	\$ 2,989	3.5 %

NM=Not Meaningful

Total non-interest income of \$32.3 million for the third quarter of 2020 increased as compared to \$30.9 million in the third quarter of 2019. Revenues from wealth management fees and remittance processing activities represented 45.0% of the Company's non-interest income for the quarter ended September 30, 2020, providing a complement to spread-based revenue from traditional banking activities. Total non-interest income of \$87.8 million for the nine months ended September 30, 2020 increased as compared to \$84.8 million in the comparable period of 2019.

Wealth management fees were \$10.5 million for the third quarter of 2020, an increase from \$8.8 million for the third quarter of 2019, and were \$32.3 million for the nine months ended September 30, 2020, compared to \$27.4 million for the comparable period of 2019. First Busey's Wealth Management division ended the third quarter of 2020 with \$9.5 billion in assets under care. The Wealth Management division experienced strong new account activity during the third quarter of 2020. Market volatility related to COVID-19 may impact fees in future quarters.

Fees for customer services decreased 18.6% for the three months ended September 30, 2020 compared to the same period of 2019 and 15.3% for the nine months ended September 30, 2020 compared to the same period of 2019. The decrease relates to fee waivers provided in connection with the Company's Financial Relief Program and changing customer behaviors resulting from COVID-19.

Remittance processing revenue from the Company's subsidiary, FirsTech, was \$4.0 million for the third quarter of 2020, an increase from \$3.8 million compared to the same period of 2019, and was \$11.5 million for the nine months ended September 30, 2020 as compared to \$11.3 million for the same period of 2019. Remittance processing adds important diversity to our revenue stream while widening the array of service offerings available to our larger commercial clients within our footprint and nationally.

Mortgage revenue of \$5.8 million in the third quarter of 2020 increased compared to \$3.3 million in the third quarter of 2019. Mortgage revenue of \$9.9 million for the nine months ended September 30, 2020 increased compared to \$8.1 million in the comparable period of 2019, primarily on increased volume and stronger margins.

Other income increased to \$3.3 million for the third quarter of 2020 compared to \$3.2 million in the third quarter of 2019, but decreased to \$5.9 million for the nine months ended September 30, 2020 compared to \$6.4 million in the same period of 2019. Other income variances are primarily driven by fluctuations in income generated from swap origination fees, data processing income and commercial loan sales gains.

**Non-Interest Expense**
*(dollars in thousands):*

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	\$ Change	% Change	2020	2019	\$ Change	% Change
Salaries, wages and employee benefits	\$ 32,839	\$ 38,747	\$ (5,908)	(15.2)%	\$ 95,397	\$ 105,356	\$ (9,959)	(9.5)%
Data processing	3,937	5,032	(1,095)	(21.8)%	12,383	15,049	(2,666)	(17.7)%
Net occupancy expense of premises	4,256	4,652	(396)	(8.5)%	13,419	13,365	54	0.4 %
Furniture and equipment expenses	2,325	2,489	(164)	(6.6)%	7,311	6,936	375	5.4 %
Professional fees	1,698	2,622	(924)	(35.2)%	5,508	9,001	(3,493)	(38.8)%
Amortization of intangible assets	2,493	2,360	133	5.6 %	7,569	6,866	703	10.2 %
Other expense	8,994	12,219	(3,225)	(26.4)%	28,537	36,731	(8,194)	(22.3)%
Total non-interest expense	\$ 56,542	\$ 68,121	\$ (11,579)	(17.0)%	\$ 170,124	\$ 193,304	\$ (23,180)	(12.0)%
Income taxes	\$ 9,118	\$ 8,052	\$ 1,066	13.2 %	\$ 19,986	\$ 24,339	\$ (4,353)	(17.9)%
Effective rate on income taxes	22.8 %	24.5 %			21.7 %	24.7 %		
Efficiency ratio	52.4 %	62.7 %			54.3 %	61.6 %		
Full-time equivalent employees as of period-end	1,371	1,595						

Total non-interest expense of \$56.5 million for the three months ended September 30, 2020 decreased as compared to \$68.1 million for the same period in 2019. Total non-interest expense of \$170.1 million for the nine months ended September 30, 2020 decreased as compared to \$193.3 million for the same period in 2019. The Company remains focused on expense discipline and expects expense reductions as a result of its branch closures and strategic actions in response to COVID-19, and as it realizes additional expense savings from prior acquisitions.

Salaries, wages and employee benefits were \$32.8 million in the third quarter of 2020, a decrease from \$38.7 million in the third quarter of 2019, and were \$95.4 million for the nine months ended September 30, 2020 compared to \$105.4 million for the comparable period of 2019. The decrease was a result of the deferral of PPP loan origination costs of \$3.9 million, a decrease in non-operating acquisition and other restructuring costs of \$1.8 million for the nine months ended September 30, 2020 compared to the same period of 2019 and a decrease in full-time equivalents. Total full-time equivalents at September 30, 2020 numbered 1,371 compared to 1,480 at June 30, 2020 and 1,595 at September 30, 2019, a decline of 14% year-over-year.

Data processing expense was \$3.9 million in the third quarter of 2020, as compared to \$5.0 million in the third quarter of 2019, and was \$12.4 million in the nine months ended September 30, 2020, as compared to \$15.0 million in the same period of 2019. The 2019 data processing expense included conversion expenses and data processing related to TheBANK.

Combined net occupancy expense of premises and furniture and equipment expenses was \$6.6 million for the three months ended September 30, 2020, as compared to \$7.1 million for the three months ended September 30, 2019, and was \$20.7 million for the nine months ended September 30, 2020, as compared to \$20.3 million in the same period of 2019. The Company continues to evaluate its banking center network and closed 12 banking centers on October 23, 2020.

Professional fees decreased 35.2% for the three months ended September 30, 2020, as compared to the same period of 2019, and decreased 38.8% for the nine months ended September 30, 2020, as compared to the same period of 2019. The decrease is primarily related to a reduction in legal and consulting fees related to acquisitions.

Amortization of intangible assets increased to \$2.5 million for the three months ended September 30, 2020, as compared to \$2.4 million for the three months ended September 30, 2019, and increased to \$7.6 million for the nine months ended September 30, 2020, as compared to \$6.9 million for the comparable period of 2019. The increase was due to increases in intangible asset balances from acquisitions in 2019.

Other expense in the third quarter of 2020 was \$9.0 million as compared to \$12.2 million in the third quarter of 2019, and other expense of \$28.5 million for the nine months ended September 30, 2020 decreased compared to \$36.7 million for the comparable period of 2019. One-time pre-tax expenses relating to acquisitions and other restructuring activities included in other expense were \$0.8 million and \$11.3 million for the nine months ended September 30, 2020 and 2019, respectively. Provision for unfunded commitments of \$0.3 million and \$1.8 million for the three and nine months ended September 30, 2020 were recorded in other expense.

The efficiency ratio<sup>(1)</sup> is calculated as total non-interest expense, less amortization charges, as a percentage of tax-equivalent net interest income plus non-interest income, less security gains and losses. The efficiency ratio, which is a measure commonly used by management and the banking industry, measures the amount of expense incurred to generate a dollar of revenue. The efficiency ratio was 52.42% for the quarter ended September 30, 2020 compared to 50.97% for the quarter ended June 30, 2020 and 62.73% for the quarter ended September 30, 2019. The adjusted efficiency ratio<sup>(1)</sup> was 49.97% for the quarter ended September 30, 2020, 50.48% for the quarter ended June 30, 2020, and 55.42% for the quarter ended September 30, 2019. The efficiency ratio for the nine months ended September 30, 2020 was 54.30% compared to 61.55% for the same period of 2019, and the adjusted efficiency ratio<sup>(1)</sup> was 53.24% for the nine months ended September 30, 2020 compared to 56.12% for the comparable period of 2019. The Company remains focused on expense discipline.

#### *Income Taxes*

The effective income tax rate of 22.8% and 21.7% for the three and nine months ended September 30, 2020 was lower than the combined federal and state statutory rate of approximately 28% due to tax exempt interest income, such as municipal bond interest and bank owned life insurance income, and investments in various federal and state tax credits, including an Illinois new market tax credit. The Company continues to monitor evolving federal and state tax legislation and its potential impact on operations on an ongoing basis. At September 30, 2020, the Company was not under examination by any tax authority; however, Banc Ed, which the Company acquired on January 31, 2019, is under examination by the Illinois Department of Revenue for its 2009 to 2016 income tax filings.

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<sup>(1)</sup> Non-GAAP financial measures, see “Non-GAAP Financial Information” included in this Quarterly Report on Form 10-Q.

**FINANCIAL CONDITION****Significant Consolidated Balance Sheet Items (dollars in thousands):**

	September 30, 2020	December 31, 2019	\$ Change	% Change
<b>Assets</b>				
Debt securities available for sale	\$ 2,080,849	\$ 1,648,257	\$ 432,592	26.2 %
Portfolio loans, net	7,022,470	6,633,501	388,969	5.9 %
<b>Total assets</b>	<b>\$ 10,539,628</b>	<b>\$ 9,695,729</b>	<b>\$ 843,899</b>	<b>8.7 %</b>
<b>Liabilities</b>				
Deposits:				
Noninterest-bearing	\$ 2,595,075	\$ 1,832,619	\$ 762,456	41.6 %
Interest-bearing	6,047,626	6,069,777	(22,151)	(0.4)%
<b>Total deposits</b>	<b>\$ 8,642,701</b>	<b>\$ 7,902,396</b>	<b>\$ 740,305</b>	<b>9.4 %</b>
Securities sold under agreements to repurchase	\$ 201,641	\$ 205,491	\$ (3,850)	(1.9)%
Short-term borrowings	4,651	8,551	(3,900)	(45.6)%
Long-term debt	4,931	83,600	(78,669)	(94.1)%
Senior notes, net of unamortized issuance costs	39,775	39,674	101	0.3 %
Subordinated notes, net of unamortized issuance costs	182,095	59,248	122,847	207.3 %
Junior subordinated debt owed to unconsolidated trusts	71,427	71,308	119	0.2 %
<b>Total liabilities</b>	<b>\$ 9,283,923</b>	<b>\$ 8,475,295</b>	<b>\$ 808,628</b>	<b>9.5 %</b>
<b>Stockholders' equity</b>	<b>\$ 1,255,705</b>	<b>\$ 1,220,434</b>	<b>\$ 35,271</b>	<b>2.9 %</b>

During the quarter, due to PPP loans and other factors, the Company's total assets exceeded \$10 billion. If the Company remains over \$10 billion in assets at year-end, it will begin to face limitations on interchange fees and heightened supervision and regulation in 2021.

**Portfolio Loans**

The Company believes that making sound and profitable loans is a necessary and desirable means of employing funds available for investment. 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 originated outside of these areas are generally residential mortgage loans originated for sale in the secondary market or loans to existing customers of Busey Bank. The Company attempts to utilize government-assisted lending programs, such as the SBA and United States Department of Agriculture lending programs, when prudent. Generally, loans are collateralized by assets, primarily real estate 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 regular basis. Management routinely (at least quarterly) reviews the Company's allowance 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. Significant underwriting factors, in addition to 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.

As a matter of policy and practice, the Company limits the level of concentration exposure in any particular loan segment with the goal of maintaining a well-diversified loan portfolio. In anticipation of the potential risks associated with COVID-19, the Company took actions starting in early March 2020 to escalate the monitoring of susceptible industry sectors within its portfolio. The Company anticipates that organic loan growth will slow in future quarters as a result of COVID-19 and the related impact on economic conditions in the Company’s market areas.

At no time is a borrower’s total borrowing relationship permitted to exceed the Company’s regulatory lending limit. 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 in 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 2019 Form 10-K. 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.

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

	September 30, 2020				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	\$ 1,528,351	\$ 622,841	\$ 69,729	\$ 60,110	\$ 2,281,031
Commercial real estate	1,864,119	723,424	157,507	167,358	2,912,408
Real estate construction	201,262	101,429	28,890	75,685	407,266
Retail real estate	1,003,581	327,533	96,149	53,257	1,480,520
Retail other	35,358	2,181	1,326	1,221	40,086
Portfolio loans	\$ 4,632,671	\$ 1,777,408	\$ 353,601	\$ 357,631	\$ 7,121,311
Allowance					(98,841)
Portfolio loans, net					<u>\$ 7,022,470</u>

	December 31, 2019				
	Illinois	Missouri	Florida	Indiana	Total
Commercial	\$ 1,220,088	\$ 457,416	\$ 20,589	\$ 50,275	\$ 1,748,368
Commercial real estate	1,782,442	679,217	150,935	180,823	2,793,417
Real estate construction	168,621	139,540	20,311	73,389	401,861
Retail real estate	1,139,173	412,811	99,976	41,809	1,693,769
Retail other	44,158	2,535	1,611	1,530	49,834
Portfolio loans	\$ 4,354,482	\$ 1,691,519	\$ 293,422	\$ 347,826	\$ 6,687,249
Allowance					(53,748)
Portfolio loans, net					<u>\$ 6,633,501</u>



Portfolio loans increased \$434.1 million, or 6.5%, as of September 30, 2020 compared to December 31, 2019, as a result of PPP loans.

#### *Allowance and Provision for Credit Losses*

The allowance for credit losses is a significant estimate in the Company's unaudited Consolidated Balance Sheet, affecting both earnings and capital. Its methodology influences, and is influenced by, Busey Bank's overall credit risk management processes. The allowance for credit losses is managed in accordance with GAAP to provide an adequate reserve for expected credit losses that is reflective of management's best estimate of what is expected to be collected. All estimates of credit losses should be based on a careful consideration of all significant factors affecting the collectability as of the evaluation date. The allowance for credit losses is established through provision for credit loss expense charged to income.

The Company calculates the allowance for credit losses at each reporting date. The Company recognizes an allowance for the lifetime expected credit losses for the amount the Company does not expect to collect. Subsequent changes in expected credit losses are recognized immediately in earnings. The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Management estimates the allowance balance using relevant available information from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Company's historical loss experience from 2010-2019. As of September 30, 2020, the Company expects the markets in which it operates to experience a decline in economic conditions and an increase in the unemployment rate and level of delinquencies over the next 12 months. Management adjusted the historical loss experience for these expectations with an immediate reversion to historical loss rate beyond this forecast period.

When a determination is made by management to charge-off a loan balance, a write-off is charged against the allowance for credit losses. Net charge-offs totaled \$2.8 million for the quarter ended September 30, 2020 compared to \$1.2 million for the quarter ended June 30, 2020, \$3.4 million for the quarter ended March 31, 2020, \$1.6 million for the quarter ended December 31, 2019 and \$1.8 million for the quarter ended September 30, 2019.

During the third quarter of 2020, the Company recorded provision for credit losses of \$5.5 million and provision for unfunded commitments of \$0.3 million primarily as a result of economic factors and uncertainty due to COVID-19.

With the adoption of CECL, the allowance as a percentage of portfolio loans was 1.39% at September 30, 2020, as compared to 1.33% at June 30, 2020, 1.25% at March 31, 2020, 0.80% at December 31, 2019 and 0.79% at September 30, 2019. The allowance as a percentage of portfolio loans, excluding the amortized cost of PPP loans, was 1.55% at September 30, 2020. The allowance as a percentage of non-performing loans increased to 408.82% at September 30, 2020, as compared to 378.43% at June 30, 2020, 310.10% at March 31, 2020, 182.15% at December 31, 2019 and 160.00% at September 30, 2019.

The ongoing impacts of the CECL methodology will be dependent upon changes in economic conditions and forecasts, originated and acquired loan portfolio composition, credit performance trends, portfolio duration, and other factors. If economic conditions deteriorate further than current forecast factors as a result of COVID-19, the Company would expect the provision for credit losses to increase in future periods.

#### *Non-performing Loans and Non-performing Assets*

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 guidelines. 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.

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Typically, loans are secured by collateral. When a loan is classified as non-accrual and determined to be collateral dependent, it is appropriately reserved or charged down through the allowance 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.

The following table sets forth information concerning key asset quality metrics as of each of the dates indicated (*dollars in thousands*):

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Loans 30-89 days past due	\$ 6,708	\$ 5,166	\$ 10,150	\$ 14,271	\$ 12,434
Non-accrual loans	23,898	25,095	25,672	27,896	31,827
Loans 90+ days past due and still accruing	279	285	1,540	1,611	1,276
Total non-performing loans	24,177	25,380	27,212	29,507	33,103
OREO	4,978	3,755	3,553	3,057	926
Total non-performing assets	\$ 29,155	\$ 29,135	\$ 30,765	\$ 32,564	\$ 34,029
Performing TDRs	\$ 4,218	\$ 4,316	\$ 4,949	\$ 5,005	\$ 8,778
Allowance	98,841	96,046	84,384	53,748	52,965
Allowance to portfolio loans	1.39 %	1.33 %	1.25 %	0.80 %	0.79 %
Allowance to portfolio loans, excluding PPP loans	1.55 %	1.48 %	1.25 %	0.80 %	0.79 %
Allowance to non-performing loans	408.82 %	378.43 %	310.10 %	182.15 %	160.00 %
Non-performing assets to total assets	0.28 %	0.27 %	0.32 %	0.34 %	0.35 %
Non-performing loans to portfolio loans	0.34 %	0.35 %	0.40 %	0.44 %	0.50 %
Non-performing loans to portfolio loans, excluding PPP loans	0.38 %	0.39 %	0.40 %	0.44 %	0.50 %
Non-performing assets to portfolio loans and OREO	0.41 %	0.40 %	0.46 %	0.49 %	0.51 %

Total non-performing loans totaled \$24.2 million at September 30, 2020, a decrease from \$25.4 million as of June 30, 2020, \$27.2 million as of March 31, 2020, \$29.5 million as of December 31, 2019 and \$33.1 million as of September 30, 2019. Continued disciplined credit management resulted in non-performing loans as a percentage of total loans of 0.34% at September 30, 2020, as compared to 0.35% at June 30, 2020, 0.40% at March 31, 2020, 0.44% at December 31, 2019 and 0.50% at September 30, 2019. Non-performing loans as a percentage of total loans, excluding the amortized cost of PPP loans, was 0.38% at September 30, 2020.

If economic conditions deteriorate further as a result of COVID-19, the Company would expect the credit quality of our loan portfolio to decline and loan defaults to increase.

*Potential Problem Loans*

Potential problem loans are those loans which are not categorized as individually evaluated, restructured, non-accrual or 90+ days past due, but where current information indicates that the borrower may not be able to comply with loan repayment terms. Potential problem loans totaled \$77.7 million at September 30, 2020, compared to \$74.6 million at December 31, 2019. 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 September 30, 2020, management identified no other loans that represent or result from trends or uncertainties which would be expected to materially impact future operating results, liquidity or capital resources.

To alleviate some of the financial hardships qualifying customers faced as a result of COVID-19, the Company offered an internal Financial Relief Program. The program included options for short-term loan payment deferrals and certain fee waivers. As of September 30, 2020, the Company had commercial loans on payment deferrals representing \$426.4 million in loans, mortgage/personal loans on payment deferrals representing \$82.4 million in loans and additional deferrals of \$63.7 million for mortgage loans in the serviced portfolio. As these deferrals expire, the Company will continue to monitor credits for potential problem loans.

### **Deposits**

Total deposits were \$8.6 billion at September 30, 2020, as compared to \$7.9 billion at December 31, 2019. The increase in deposits at September 30, 2020 is attributable to retention of PPP loan funding in customer deposit accounts, other core deposit growth and the seasonality of public funds. The Company remains funded primarily through core deposits with significant market share in its primary markets.

### **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, the Federal Reserve, First Busey's revolving credit facility, or to utilize brokered deposits. As of September 30, 2020, the Company had additional capacity to borrow from the FHLB and Federal Reserve of \$1.5 billion and \$477.5 million, respectively.

The Company has the ability to pledge PPP loans as collateral to either the FHLB or Federal Reserve Discount Window to increase the availability to borrow against any potential short-term funding needs.

As of September 30, 2020, 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**

The Bank routinely enters into commitments to extend credit and standby letters of credit in the normal course of business to meet the financing needs of its customers. As of September 30, 2020 and December 31, 2019, we had outstanding loan commitments and standby letters of credit of \$1.8 billion and \$1.7 billion, respectively. The balance of commitments to extend credit represents future cash requirements and some of these commitments may expire without being drawn upon. We anticipate we will have sufficient funds available to meet current loan commitments, including loan applications received and in process prior to the issuance of firm 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. In order to refrain from restrictions on dividends, equity repurchases and discretionary bonus payments, bank holding companies and their subsidiary banks are required to maintain, including the capital conservation buffer, a total capital to total risk-weighted asset ratio of not less than 10.50%, Tier 1 capital to total

risk-weighted asset ratio of not less than 8.50%, Common Equity Tier 1 capital to total risk-weighted asset ratio of not less than 7.00% and a Tier 1 leverage ratio of not less than 4.00%. See “Note 11: Regulatory Capital” for ratios and further discussion.

#### **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 adjusted pre-provision net revenue, adjusted net income, adjusted diluted earnings per share, adjusted return on average assets, adjusted net interest margin, adjusted efficiency ratio, tangible common equity, tangible common equity to tangible assets, tangible book value per share and return on average tangible common equity. Management uses these non-GAAP measures, together with the related GAAP measures, to analyze the Company’s performance and to make business decisions. Management also uses these measures for peer comparisons.

A reconciliation to what management believes to be the most directly comparable GAAP financial measures, specifically total net interest income in the case of adjusted pre-provision net revenue, net income in the case of adjusted net income, adjusted diluted earnings per share and adjusted return on average assets, total net interest income in the case of adjusted net interest margin, total non-interest income and total non-interest expense in the case of adjusted efficiency ratio and total stockholders’ equity in the case of tangible common equity, tangible common equity to tangible assets, tangible book value per share and return on average tangible common equity appears below (dollars in thousands, except per share data). The Company believes the adjusted measures are useful for investors and management to understand the effects of certain non-recurring non-interest items and provides additional perspective on the Company’s performance over time as well as comparison to the Company’s peers.

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

**Reconciliation of Non-GAAP Financial Measures — Adjusted Pre-Provision Net Revenue**  
(unaudited, dollars in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net interest income	\$ 69,753	\$ 70,813	\$ 73,476	\$ 209,999	\$ 215,287
Non-interest income	32,285	27,964	30,936	87,766	84,777
Less net (gains) losses on sales of securities and unrealized (gains) losses recognized on equity securities	426	(315)	(361)	(476)	623
Non-interest expense	(56,542)	(53,068)	(68,121)	(170,124)	(193,304)
<b>Pre-provision net revenue</b>	<b>\$ 45,922</b>	<b>\$ 45,394</b>	<b>\$ 35,930</b>	<b>\$ 127,165</b>	<b>\$ 107,383</b>
Acquisition and other restructuring expenses	2,529	487	7,670	3,161	16,442
Provision for unfunded commitments	250	567	—	1,834	—
New Market Tax Credit amortization	—	—	—	1,200	1,200
<b>Adjusted: pre-provision net revenue</b>	<b>\$ 48,701</b>	<b>\$ 46,448</b>	<b>\$ 43,600</b>	<b>\$ 133,360</b>	<b>\$ 125,025</b>
<b>Average total assets</b>	<b>\$ 10,680,995</b>	<b>\$ 10,374,820</b>	<b>\$ 9,659,769</b>	<b>\$ 10,249,578</b>	<b>\$ 9,352,272</b>
<b>Reported:</b> Pre-provision net revenue to average assets <sup>(1)</sup>	1.71 %	1.76 %	1.48 %	1.66 %	1.54 %
<b>Adjusted:</b> Pre-provision net revenue to average assets <sup>(1)</sup>	1.81 %	1.80 %	1.79 %	1.74 %	1.79 %

<sup>(1)</sup> Annualized measure

**Reconciliation of Non-GAAP Financial Measures — Adjusted Net Income, Adjusted Diluted Earnings Per Share and Adjusted Return on Average Assets**  
(unaudited, dollars in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net income	\$ 30,829	\$ 25,806	\$ 24,828	\$ 71,999	\$ 74,382
Acquisition expenses					
Salaries, wages, and employee benefits	—	—	3,673	—	3,716
Data processing	—	—	172	—	506
Lease or fixed asset impairment	234	—	—	234	415
Other (includes professional and legal)	99	141	3,100	385	7,598
Other restructuring costs					
Salaries, wages, and employee benefits	2,011	346	182	2,357	457
Data processing	—	—	84	—	476
Other (includes professional and legal)	185	—	459	185	1,452
MSR valuation impairment	—	—	—	—	1,822
Related tax benefit	(555)	(102)	(1,963)	(687)	(4,177)
Adjusted net income	<u>\$ 32,803</u>	<u>\$ 26,191</u>	<u>\$ 30,535</u>	<u>\$ 74,473</u>	<u>\$ 86,647</u>
Dilutive average common shares outstanding	54,737,920	54,705,273	55,646,104	54,796,354	55,057,518
<b>Reported:</b> Diluted earnings per share	\$ 0.56	\$ 0.47	\$ 0.45	\$ 1.31	\$ 1.35
<b>Adjusted:</b> Diluted earnings per share	0.60	0.48	0.55	1.36	1.57
Average total assets	\$ 10,680,995	\$ 10,374,820	\$ 9,659,769	\$ 10,249,578	\$ 9,352,272
<b>Reported:</b> Return on average assets <sup>(1)</sup>	1.15 %	1.00 %	1.02 %	0.94 %	1.06 %
<b>Adjusted:</b> Return on average assets <sup>(1)</sup>	1.22 %	1.02 %	1.25 %	0.97 %	1.24 %

<sup>(1)</sup> Annualized measure

**Reconciliation of Non-GAAP Financial Measures — Adjusted Net Interest Margin**  
(unaudited, dollars in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2019	September 30, 2019	September 30, 2020	September 30, 2019
<b>Reported:</b> Net interest income	\$ 69,753	\$ 70,813	\$ 73,476	\$ 209,999	\$ 215,287
Tax-equivalent adjustment	638	717	778	2,085	2,232
Purchase accounting accretion related to business combinations	(2,618)	(2,477)	(2,974)	(7,922)	(9,439)
<b>Adjusted:</b> Net interest income	\$ 67,773	\$ 69,053	\$ 71,280	\$ 204,162	\$ 208,080
<b>Average interest-earning assets</b>	\$ 9,805,948	\$ 9,485,200	\$ 8,781,590	\$ 9,371,157	\$ 8,514,580
<b>Reported:</b> Net interest margin <sup>(1)</sup>	2.86 %	3.03 %	3.35 %	3.02 %	3.42 %
<b>Adjusted:</b> Net Interest margin <sup>(1)</sup>	2.75 %	2.93 %	3.22 %	2.91 %	3.27 %

<sup>(1)</sup> Annualized measure

**Reconciliation of Non-GAAP Financial Measures — Adjusted Efficiency Ratio**  
(unaudited, dollars in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Reported:</b> Net Interest income	\$ 69,753	\$ 70,813	\$ 73,476	\$ 209,999	\$ 215,287
Tax-equivalent adjustment	638	717	778	2,085	2,232
Tax-equivalent interest income	\$ 70,391	\$ 71,530	\$ 74,254	\$ 212,084	\$ 217,519
<b>Reported:</b> Non-interest income	32,285	27,964	30,936	87,766	84,777
Less net (gains) losses on sales of securities and unrealized (gains) losses recognized on equity securities	426	(315)	(361)	(476)	623
<b>Adjusted:</b> Non-interest income	\$ 32,711	\$ 27,649	\$ 30,575	\$ 87,290	\$ 85,400
<b>Reported:</b> Non-interest expense	56,542	53,068	68,121	170,124	193,304
Amortization of intangible assets	(2,493)	(2,519)	(2,360)	(7,569)	(6,866)
Non-operating adjustments:					
Salaries, wages, and employee benefits	(2,011)	(346)	(3,855)	(2,357)	(4,173)
Data processing	—	—	(256)	—	(982)
Other	(518)	(141)	(3,559)	(804)	(11,287)
<b>Adjusted:</b> Non-interest expense	\$ 51,520	\$ 50,062	\$ 58,091	\$ 159,394	\$ 169,996
<b>Reported:</b> Efficiency ratio	52.42 %	50.97 %	62.73 %	54.30 %	61.55 %
<b>Adjusted:</b> Efficiency ratio	49.97 %	50.48 %	55.42 %	53.24 %	56.12 %

**Reconciliation of Non-GAAP Financial Measures — Tangible Common Equity, Tangible Common Equity to Tangible Assets, Tangible Book Value per Share, and Return on Average Tangible Common Equity**  
(unaudited, dollars in thousands)

	<b>As of and for the Three Months Ended</b>		
	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>September 30, 2019</b>
Total Assets	\$ 10,539,628	\$ 10,835,965	\$ 9,753,760
Goodwill and other intangible assets, net	(365,960)	(368,053)	(381,323)
Tax effect of other intangible assets, net	15,239	15,825	16,415
<b>Tangible assets</b>	<b>\$ 10,188,907</b>	<b>\$ 10,483,737</b>	<b>\$ 9,388,852</b>
Total stockholders' equity	1,255,705	1,236,084	1,215,981
Goodwill and other intangible assets, net	(365,960)	(368,053)	(381,323)
Tax effect of other intangible assets, net	15,239	15,825	16,415
<b>Tangible common equity</b>	<b>\$ 904,984</b>	<b>\$ 883,856</b>	<b>\$ 851,073</b>
Ending number of common shares outstanding	54,522,231	54,516,000	55,197,277
<b>Tangible common equity to tangible assets<sup>(1)</sup></b>	<b>8.88 %</b>	<b>8.43 %</b>	<b>9.06 %</b>
<b>Tangible book value per share</b>	<b>\$ 16.32</b>	<b>\$ 15.92</b>	<b>\$ 15.12</b>
Average stockholders' common equity	\$ 1,248,448	\$ 1,233,270	\$ 1,212,833
Average goodwill and other intangible assets, net	(367,490)	(369,699)	(377,601)
Average tangible stockholders' common equity	<b>\$ 880,958</b>	<b>\$ 863,571</b>	<b>\$ 835,232</b>
<b>Reported:</b> Return on average tangible common equity <sup>(2)</sup>	13.92 %	12.02 %	11.79 %
<b>Adjusted:</b> Return on average tangible common equity <sup>(2)(3)</sup>	14.81 %	12.20 %	14.50 %

<sup>(1)</sup> Tax-effected measure, 28% estimated deferred tax rate

<sup>(2)</sup> Annualized measure

<sup>(3)</sup> Calculated using adjusted net income

	<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Average stockholders' common equity	\$ 1,233,348	\$ 1,173,213
Average goodwill and other intangible assets, net	(369,801)	(369,104)
Average tangible stockholders' common equity	<b>\$ 863,547</b>	<b>\$ 804,109</b>
<b>Reported:</b> Return on average tangible common equity <sup>(1)</sup>	11.14 %	12.37 %
<b>Adjusted:</b> Return on average tangible common equity <sup>(1), (2)</sup>	11.52 %	14.41 %

<sup>(1)</sup> Annualized measure

<sup>(2)</sup> Calculated using adjusted net income



## FORWARD-LOOKING STATEMENTS

Statements made in this document, 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 the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company'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. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events. A number of factors, many of which are beyond the Company's ability to control or predict, could cause actual results to differ materially from those in the Company's forward-looking statements. These factors include, among others, the following: (i) the strength of the local, state, national and international economy (including the impact of the 2020 presidential election and the impact of tariffs, a U.S. withdrawal from or significant negotiation of trade agreements, trade wars and other changes in trade regulations); (ii) the economic impact of any future terrorist threats or attacks, widespread disease or pandemics (including the COVID-19 pandemic in the United States), or other adverse external events that could cause economic deterioration or instability in credit markets; (iii) changes in state and federal laws, regulations and governmental policies concerning the Company's general business; (iv) changes in accounting policies and practices, including CECL, which changed how the Company estimates credit losses; (v) changes in interest rates and prepayment rates of the Company's assets (including the impact of The London Inter-bank Offered Rate phase-out); (vi) increased competition in the financial services sector and the inability to attract new customers; (vii) changes in technology and the ability to develop and maintain secure and reliable electronic systems; (viii) the loss of key executives or associates; (ix) changes in consumer spending; (x) unexpected results of current and/or future acquisitions, which may include failure to realize the anticipated benefits of any acquisition and the possibility that the transaction costs may be greater than anticipated; (xi) unexpected outcomes of existing or new litigation involving the Company; 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 the Company and its business, including additional factors that could materially affect its financial results, is included in the Company's filings with the Securities and Exchange Commission.

## 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, assumptions and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending on the severity of such changes, the possibility of a materially different financial condition or materially different results of operations is a reasonable likelihood. Further, changes in accounting standards could impact the Company's critical accounting estimates.

Our significant accounting policies are described in Note 1 of the Company's 2019 Form 10-K. 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.*** The fair values of investment securities are measurements from an independent pricing service and are based on observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things. The use of different judgments and estimates to determine the fair value of securities could result in a different fair value estimate.

Realized securities gains or losses are reported in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method.

Debt securities available for sale are not within the scope of CECL, however, the accounting for credit losses on these securities is affected by ASC 326-30. A debt security available for sale is impaired if the fair value of the security declines below its amortized cost basis. To determine the appropriate accounting, the Company must first determine if it intends to sell the security or if it is more likely than not that it will be required to sell the security before the fair value increases to at least the amortized cost basis. If either of those selling events is expected, the Company will write down the amortized cost basis of the security to its fair value. This is achieved by writing off any previously recorded allowance, if applicable, and recognizing any incremental impairment through earnings. If the Company does not intend to sell the security nor believes it more likely than not will be required to sell the security before the fair value recovers to the amortized cost basis, the Company must determine whether any of the decline in fair value has resulted from a credit loss, or if it is entirely the result of noncredit factors.

The Company considers the following factors in assessing whether the decline is due to a credit loss:

- Extent to which the fair value is less than the amortized cost basis.
- Adverse conditions specifically related to the security, an industry, or a geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, in the financial condition of the underlying loan obligors).
- Payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future.
- Failure of the issuer of the security to make scheduled interest or principal payments.
- Any changes to the rating of the security by a rating agency.

Impairment related to a credit loss must be measured using the discounted cash flow method. Credit loss recognition is limited to the fair value of the security. The impairment is recognized by establishing an allowance through provision for credit losses. Impairment related to noncredit factors is recognized in accumulated other comprehensive income, net of applicable taxes.

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

The fair value of a loan portfolio acquired in a business combination generally requires greater levels of management estimates and judgment than other assets acquired or liabilities assumed. Acquired loans are in the scope of the CECL methodology. However, the offset to record the allowance at the date of acquisition on acquired loans depends on whether or not the loan is classified as PCD. The allowance for PCD loans is recorded through a gross-up effect, while the allowance for acquired non-PCD loans is recorded through provision expense, consistent with originated loans. Thus, the determination of which loans are PCD and non-PCD can have a significant effect on the accounting for these loans.

**Goodwill.** Goodwill represents the excess of purchase price over the fair value of net assets acquired using the acquisition method of accounting. Determining the fair value often involves estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Goodwill is not amortized, instead, the Company assess the potential for impairment on an annual basis or more frequently if events and circumstances indicate that goodwill might be impaired. The Company will continue to monitor events around COVID-19 and its potential impact on goodwill.

**Income Taxes.** The Company estimates income tax expense based on amounts expected to be owed to federal and state tax jurisdictions. Estimated income tax expense is reported in the unaudited Consolidated Statements of Income. Accrued and deferred taxes, as reported in other assets or other liabilities in the unaudited Consolidated Balance Sheets, represent the net estimated amount due to or to be received from taxing jurisdictions either currently or in the future. Management judgment is involved in estimating accrued and deferred taxes, as it may be necessary to evaluate the risks and merits of the tax treatment of transactions, filing positions, and taxable income calculations after considering tax-

related statutes, regulations and other relevant factors. Because of the complexity of tax laws and interpretations, interpretation is subject to judgment.

**Allowance for Credit Losses.** The Company calculates the allowance for credit losses at each reporting date. The Company recognizes an allowance for the lifetime expected credit losses for the amount the Company does not expect to collect. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported book value. The calculation also contemplates that the Company may not be able to make or obtain such forecasts for the entire life of the financial assets and requires a reversion to historical credit loss information.

In determining the allowance, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The allowance for credit losses must be determined on a collective (pool) basis when similar risk characteristics exists. On a case-by-case basis, the Company may conclude a loan should be evaluated on an individual basis based on the disparate risk characteristics.

Loans deemed uncollectible are charged against and reduce the allowance. A provision for credit losses is charged to current expense and acts to replenish the allowance for credit losses in order to maintain the allowance at a level that management deems adequate. Determining the allowance involves significant judgments and assumptions by management. Because of the nature of the judgments and assumptions made by management, actual results may differ from these judgments and assumptions.

### **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 to structure the Consolidated Balance Sheets to optimize stability in net interest income in consideration of projected future changes in interest rates.

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 one-year and a two-year time horizon and net interest income is calculated under current market rates and assuming permanent instantaneous shifts of +/-100, +200 and +300 basis points. Due to the current low interest rate environment, a downward adjustment in federal fund rates was not meaningful at September 30, 2020. The model assumes immediate and sustained shifts in the federal funds rate and other market rate indices and 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. Assets and liabilities are assumed to remain constant as of measurement date; variable-rate assets and liabilities are repriced based on repricing frequency; and prepayment speeds on loans are projected for both declining and rising rate environments.

The interest rate risk of First Busey as a result of immediate and sustained changes 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			
	-100	+100	+200	+300
September 30, 2020	NM	7.19 %	13.24 %	18.38 %
December 31, 2019	(5.94)%	5.39 %	10.24 %	15.01 %

  

	Year-Two: Basis Point Changes			
	-100	+100	+200	+300
September 30, 2020	NM	9.62 %	17.28 %	23.70 %
December 31, 2019	(8.19)%	6.96 %	13.16 %	19.28 %

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

#### 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 Exchange Act) was carried out as of September 30, 2020, 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 September 30, 2020, 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 was (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 September 30, 2020, 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

In addition to the risk factors set forth under Part I, Item 1A “Risk Factors” in the Company’s 2019 Form 10-K, the following risk factors apply to First Busey:

***Our business, financial condition, liquidity and results of operations have been, and will likely continue to be, adversely affected by the COVID-19 pandemic.***

The COVID-19 pandemic has created an economic recession and has caused severe financial disruptions that have adversely affected, and are likely to continue to adversely affect, our business, financial condition, liquidity and results of operations. The extent to which COVID-19 will continue to negatively affect our business, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the continued effectiveness of our business continuity plan (including work-from-home arrangements and staffing in operational facilities), the direct and indirect impact of the pandemic on our employees, customers, clients, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has or could contribute to:

- Increased unemployment and decreased consumer confidence and business generally, leading to an increased risk of delinquencies, defaults and foreclosures.
- Ratings downgrades, credit deterioration and defaults in many industries, including hotel, restaurant, transportation, long-term healthcare, retail and commercial real estate, which may lead to increased provision expense.
- A sudden and significant reduction in the valuation of the equity, fixed-income and commodity markets and the significant increase in the volatility of those markets.
- As a result of the decline in the Federal Reserve’s target federal funds rate to near 0% (or possibly below 0% in the future), the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and reducing net income.
- Significant draws on credit lines, as customers and clients seek to increase liquidity.
- A decrease in fees for customer services.
- Increased demands on capital and liquidity.
- A sustained decline in our stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause management to perform impairment testing on our goodwill and other intangible assets that could result in an impairment charge being recorded for that period, which would adversely impact our results of operations and the ability of Busey Bank to pay dividends to the Company.
- A reduction in the value of the assets that the Company manages or otherwise administers or services for others, affecting related fee income and demand for the Company’s services.
- Heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements.
- Federal and state taxes may increase, as a result of the effects of the pandemic on governmental budgets, which could reduce our net income.
- FDIC premiums could increase if the agency experiences additional resolution costs.

The outbreak of COVID-19 has resulted in a decline in our clients’ businesses, a decrease in consumer confidence, an increase in unemployment and disruptions in the services provided by our vendors. Continued disruptions to our clients’ businesses could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans, declines in assets under management and wealth management revenues, negatively impact regional economic conditions, result in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability and negatively impact the implementation of our growth strategy. Although governmental authorities have introduced a number of programs designed to soften the impact of COVID-19 on small businesses, once these programs expire, our borrowers may not be able to satisfy their financial obligations to us.

In general, the success of the unprecedented measures taken by governmental authorities to provide economic assistance to individual households and businesses, stabilize the markets and support economic growth is unknown and they may not be sufficient to fully mitigate the negative impact of the COVID-19 pandemic. Additionally, some measures, such as a suspension of mortgage and other loan payments and foreclosures, may have a negative impact on our business, financial condition, liquidity and results of operations. We also face an increased risk of litigation and governmental and regulatory scrutiny as a result of the effects of COVID-19 on market and economic conditions and actions governmental authorities take in response to those conditions.

The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. Until the pandemic subsides, we expect draws on lines of credit, reduced revenues in our businesses and increased customer and client defaults. Even after the pandemic subsides, the U.S. economy may continue to experience a recession, and we anticipate our businesses would be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects our business, financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks described in the section entitled “Risk Factors” in our 2019 Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q.

***The U.S. government and banking regulators, including the Federal Reserve, have taken a number of unprecedented actions in response to the COVID-19 pandemic, which could ultimately have a material adverse effect on our business and results of operations.***

The CARES Act established a \$2.0 trillion economic stimulus package, including cash payments to individuals, supplemental unemployment insurance benefits and a \$349 billion loan program administered through the SBA, referred to as the PPP. In addition to implementing the programs contemplated by the CARES Act, the federal bank regulatory agencies have issued a steady stream of guidance in response to the COVID-19 pandemic and have taken a number of unprecedented steps to help banks navigate the pandemic and mitigate its impact. These include, without limitation:

- requiring banks to focus on business continuity and pandemic planning;
- adding pandemic scenarios to stress testing;
- encouraging bank use of capital buffers and reserves in lending programs;
- permitting certain regulatory reporting extensions;
- reducing margin requirements on swaps;
- permitting certain otherwise prohibited investments in investment funds;
- issuing guidance to encourage banks to work with customers affected by the pandemic and encourage loan workouts; and
- providing credit under the Community Reinvestment Act for certain pandemic-related loans, investments and public service.

The COVID-19 pandemic has significantly affected the financial markets, and the Federal Reserve has taken a number of actions in response. In March 2020, the Federal Reserve dramatically reduced the target federal funds rate and announced a \$700 billion quantitative easing program in response to the expected economic downturn caused by the COVID-19 pandemic. In addition, the Federal Reserve reduced the interest that it pays on excess reserves. We expect that these reductions in interest rates, especially if prolonged, could adversely affect our net interest income and margins and our profitability. The Federal Reserve also launched the Main Street Lending Program, which will offer deferred interest on four-year loans to small and mid-sized businesses. The full impact of the COVID-19 pandemic on our business activities as a result of new government and regulatory laws, policies, programs and guidelines, as well as market reactions to such activities, remains uncertain but may ultimately have a material adverse effect on our business and results of operations.

***COVID-19 has disrupted banking and other financial activities in the areas in which we operate and could potentially create widespread business continuity issues for us.***

The COVID-19 pandemic has negatively impacted the ability of our employees and clients to engage in banking and other financial transactions in the geographic area in which we operate and could create widespread business continuity issues for us. We also could be adversely affected if key personnel or a significant number of employees were to become

unavailable due to the effects and restrictions of an outbreak or escalation of the COVID-19 pandemic in our market area, including because of illness, quarantines, government actions or other restrictions in connection with the COVID-19 pandemic. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. Further, we rely upon our third-party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our clients.

***As a participating lender in the PPP, the Company is subject to additional risks of litigation from its customers or other parties regarding the processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.***

On March 27, 2020, President Trump signed the CARES Act, which included a \$349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The PPP opened on April 3, 2020; however, because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes the Company to risks relating to noncompliance with the PPP. On or about April 16, 2020, the SBA notified lenders that the \$349 billion earmarked for the PPP was exhausted. Congress then authorized an additional \$310 billion funding for PPP loans.

Since the opening of the PPP, several other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP and claims related to agent fees. The Company may be exposed to the risk of similar litigation, from both customers and non-customers that approached the banks regarding PPP loans, regarding their process and procedures used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

We also have credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Company, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

## **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 originally approved in 2008. On May 22, 2019, First Busey's board of directors approved an amendment to increase the authorized shares under the repurchase program by 1,000,000 shares. Further, on February 5, 2020, First Busey's board of directors approved an amendment to increase the authorized shares under the repurchase program by 2,000,000 shares. On March 16, 2020, due to uncertainties related to COVID-19, the Company suspended share repurchases under the plan and it is uncertain when the Company will resume the repurchase of shares as part of this program in the future. There were no purchases made by or on behalf of First Busey of its common stock shares during the quarter ended September 30, 2020. At September 30, 2020, the Company had 1,982,088 shares that may still be purchased under the plan.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 10.1 [Form of Performance-Based Restricted Stock Unit Agreement \(filed as Exhibit 10.1 to the Company's Form 8-K, filed with the SEC on July 9, 2020, and incorporated herein by reference\).](#)
- \*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.INS iXBRL Instance Document
- 101.SCH iXBRL Taxonomy Extension Schema
- 101.CAL iXBRL Taxonomy Extension Calculation Linkbase
- 101.LAB iXBRL Taxonomy Extension Label Linkbase
- 101.PRE iXBRL Taxonomy Extension Presentation Linkbase
- 101.DEF iXBRL Taxonomy Extension Definition Linkbase
- 104 Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

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\* 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

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Van A. Dukeman  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ JEFFREY D. JONES

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Jeffrey D. Jones  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ LYNETTE M. STRODE

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Lynette M. Strode  
Principal Accounting Officer

Date: November 5, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Van A. Dukeman, Chairman, President and Chief Executive Officer of First Busey Corporation, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of First Busey Corporation;
- 2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- 3) Based on my knowledge, the Financial Statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
  - d) disclosed in this Quarterly Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ VAN A. DUKEMAN

Van A. Dukeman

Chairman, President and Chief Executive Officer

Date: November 5, 2020

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Jeffrey D. Jones, Chief Financial Officer of First Busey Corporation, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of First Busey Corporation;
- 2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- 3) Based on my knowledge, the Financial Statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
  - d) disclosed in this Quarterly Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JEFFREY D. JONES

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Jeffrey D. Jones  
Chief Financial Officer

Date: November 5, 2020

The following certification is provided by the undersigned Chief Executive Officer of First Busey Corporation on the basis of such officer's knowledge and belief for the sole purpose of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CERTIFICATION**

I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the accompanying Quarterly Report of First Busey Corporation on Form 10-Q for the quarter ended September 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of First Busey Corporation as of and for the periods covered by the Quarterly Report.

/s/ VAN A. DUKEMAN

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Van A. Dukeman

Chairman, President and Chief Executive Officer

Date: November 5, 2020

The following certification is provided by the undersigned Chief Financial Officer of First Busey Corporation on the basis of such officer's knowledge and belief for the sole purpose of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CERTIFICATION**

I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the accompanying Quarterly Report of First Busey Corporation on Form 10-Q for the quarter ended September 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of First Busey Corporation as of and for the periods covered by the Quarterly Report.

/s/ JEFFREY D. JONES

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Jeffrey D. Jones  
Chief Financial Officer

Date: November 5, 2020