Lewis Raymond J
Form 4
March 02, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Lewis Raymond J

(Last) (First) (Middle)

C/O SABRA HEALTH CARE REIT, INC., 18500 VON KARMAN AVENUE, SUITE 550

(Street)

IRVINE, CA 92612

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Sabra Health Care REIT, Inc. [SBRA]

3. Date of Earliest Transaction (Month/Day/Year)
02/28/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/28/2018		A		125 (1)	A	$ 0	246,727 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lewis Raymond J C/O SABRA HEALTH CARE REIT, INC. 18500 VON KARMAN AVENUE, SUITE 550 IRVINE, CA 92612	X			

Signatures

/s/ Harold W. Andrews, Jr., as Attorney-in-Fact — 03/02/2018

**Signature of Reporting Person — Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents stock units credited to the reporting person in the form of dividend equivalent payments on stock units previously granted to the reporting person that are outstanding under the Issuer's 2009 Performance Incentive Plan, calculated on the basis of the market value of the Issuer's common stock on the dividend payment date. These units will vest and become payable on the same terms as the original stock units to which they relate.

(2) Includes 1,915 unvested stock units and 2,876 stock units that have vested but the payment of which has been deferred. Each stock unit represents the right to receive one share of the Issuer's Common Stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 160;

Taxable

500,309

6,295

2.52
%

579,657

6,015

2.07
%
Tax-exempt (1)
167,090

2,465

2.95
%

172,360

2,391

2.81
%
Loans (2)
2,101,194

46,369

4.45
%

1,809,942

40,952

4.56
%
Total earning assets
2,788,308

55,289

3.99
%

2,624,460

49,628

3.81
%
Cash and due from banks
47,212

54,801

Premises and equipment
41,295

39,739

Other assets
149,453

141,389

Allowance for loan losses
(22,293
)

(17,686
)

Total assets
$
3,003,975

$
2,842,703

Liabilities and Stockholders' Equity

Interest-bearing deposits

Demand deposits
$
1,116,810

$
1,133

0.20
%

$
1,128,273

$
789

0.14
%
Savings deposits
381,356

282

0.15
%

369,180

234

0.13
%
Time deposits
400,679

1,517

0.76
%

367,484

789

0.43
%
Securities sold under agreements to repurchase
155,023

124

0.16
%

157,413

86

0.11
%
FHLB advances
83,748

750

1.81
%

42,922

319

1.50
%
Fed Funds Purchased
3,510

35

1.94
%

1,725

12

1.33
%
Junior subordinated debt
25,862

608

4.74
%

23,935

444

3.75
%
Other debt
9,836

191

3.91
%

14,907

230

3.12
%
Total interest-bearing liabilities
2,176,824

4,640

0.43
%

2,105,839

2,903

0.28
%
Non interest-bearing demand deposits

486,930

438,839

Other liabilities
6,931

7,610

Stockholders' equity
333,290

290,415

Explanation of Responses:

Total liabilities & equity
$
3,003,975

$
2,842,703

Net interest income

$
50,649

$
46,725

Net interest spread

3.56
%

3.53
%
Impact of non-interest bearing funds

0.10
%

0.05
%
Net yield on interest- earning assets

3.66
%

3.58
%

(1) The tax-exempt income is not recorded on a tax equivalent basis.
(2) Nonaccrual loans and loans held for sale are included in the average balances. Balances are net of unaccreted discount related to loans acquired.

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Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and
interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the three and six-months ended June 30, 2018, compared to the same periods in 2017 (in thousands):

	Three months ended June 30, 2018 compared to 2017 Increase / (Decrease)			Six months ended June 30, 2018 compared to 2017 Increase / (Decrease)		
	Total Change	Volume (1)	Rate (1)	Total Change	Volume (1)	Rate (1)
Earning Assets:						
Interest-bearing deposits	$28	$(10)	$38	$(41)	$(255)	$214
Federal funds sold	2	—	2	(58)	(117)	59
Certificates of deposit investments	5	4	1	(11)	(43)	32
Investment securities:						
Taxable	267	(2,353)	2,620	280	(1,943)	2,223
Tax-exempt (2)	46	(43)	89	74	(44)	118
Loans (3)	4,337	9,115	(4,778)	5,417	8,174	(2,757)
Total interest income	4,685	6,713	(2,028)	5,661	5,772	(111)
Interest-Bearing Liabilities:						
Interest-bearing deposits						
Demand deposits	182	3	179	344	(23)	367
Savings deposits	25	8	17	48	9	39
Time deposits	530	182	348	728	77	651
Securities sold under agreements to repurchase	19	(13)	32	38	(4)	42
FHLB advances	307	248	59	431	354	77
Federal Funds Purchased	10	4	6	23	16	7
Junior subordinated debt	122	40	82	164	38	126
Other debt	(11)	(120)	109	(39)	(157)	118
Total interest expense	1,184	352	832	1,737	310	1,427
Net interest income	$3,501	$6,361	$(2,860)	$3,924	$5,462	$(1,538)

(1) Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.
(2) The tax-exempt income is not recorded on a tax-equivalent basis.
(3) Nonaccrual loans have been included in the average balances.

Net interest income increased $3.9 million, or 8.4%, to $50.6 million for the six months ended June 30, 2018, from $46.7 million for the same period in 2017. Net interest income increased primarily due to the growth in average earning assets including loans and investments acquired from First Bank. The net interest margin increased primarily due higher yields on investments.

For the six months ended June 30, 2018, average earning assets increased by $163.8 million, or 6.2%, and average interest-bearing liabilities increased $71.0 million or 3.4%, compared with average balances for the same period in 2017.

Explanation of Responses:

The changes in average balances for these periods are shown below:

- Average interest-bearing deposits held by the Company decreased $22.8 million or 57.2%.
- Average federal funds sold decreased $17.1 million or 96.8%.
- Average certificates of deposits investments decreased $2.9 million or 57.7%
- Average loans increased by $291.3 million or 16.1%.
- Average securities decreased by $84.6 million or 11.3%.
- Average interest-bearing customer deposits increased by $33.9 million or 1.8%.
- Average securities sold under agreements to repurchase decreased by $2.4 million or 1.5%.
- Average borrowings and other debt increased by $39.5 million or 47.3%.
- Net interest margin increased to 3.66% for the first six months of 2018 from 3.58% for the first six months of 2017.

To compare the tax-exempt yields on interest-earning assets to taxable yields, the Company also computes non-GAAP net interest income on a tax equivalent basis (TE) where the interest earned on tax-exempt loans and securities is adjusted to an amount comparable to interest subject to normal income taxes assuming a federal tax rate of 21% (referred to as the tax equivalent adjustment). The year-to-date net yield on interest-earning assets (TE) was 3.73% and 3.72% for the first six months of 2018 and 2017, respectively. The TE adjustments to net interest income for the six months ended June 30, 2018 and 2017 were $963,000 and $1,739,000, respectively.

Provision for Loan Losses

The provision for loan losses for the six months ended June 30, 2018 and 2017 was $2,932,000 and $3,562,000, respectively. The decrease in provision expense was primarily due to a decrease in net charge-offs. Net charge-offs were $864,000 for the six months ended June 30, 2018, compared to net charge offs of $2,106,000 for June 30, 2017. Nonperforming loans were $24.7 million and $17.1 million as of June 30, 2018 and 2017, respectively. For information on loan loss experience and nonperforming loans, see discussion under the “Nonperforming Loans” and “Loan Quality and Allowance for Loan Losses” sections below.

Other Income

An important source of the Company’s revenue is other income. The following table sets forth the major components of other income for the three and six-months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	$ Change	2018	2017	$ Change
Trust revenues	$938	$841	$ 97	$2,015	$1,771	$ 244
Brokerage commissions	661	509	152	1,326	1,014	312
Insurance commissions	838	853	(15)	2,325	2,478	(153)
Service charges	1,803	1,690	113	3,438	3,402	36
Security gains, net	881	335	546	901	335	566
Mortgage banking revenue, net	410	335	75	571	528	43
ATM / debit card revenue	1,860	1,665	195	3,464	3,233	231
Bank Owned Life Insurance	315	282	33	591	563	28
Other	655	1,459	(804)	1,217	2,141	(924)
Total other income	$8,361	$7,969	$ 392	$15,848	$15,465	$ 383

Following are explanations of the changes in these other income categories for the three months ended June 30, 2018 compared to the same period in 2017:

- Trust revenues increased $97,000 or 11.5% to $938,000 from $841,000 primarily due to an increase in revenue from defined contribution and other retirement accounts based on increases in the market value of the assets. Trust assets, at market value, were $998.0 million at June 30, 2018 compared to $881.5 million at June 30, 2017.

- Revenues from brokerage increased $152,000 or 29.9% to $661,000 from $509,000 primarily due to an increase in the number of brokerage accounts from new business development efforts.

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- Insurance commissions decreased $15,000 or 1.8% to $838,000 from $853,000 primarily due to a decrease in commissions and contingency income received from carriers based on claims experience during 2018 compared to 2017.

- Fees from service charges increased $113,000 or 6.7% to $1,803,000 from $1,690,000 primarily due to a increase in income from the First Bank acquisition offset by a decrease in service charges based on the number of deposit transactions.

- The sale of securities during the three months ended June 30, 2018 resulted in net securities gains of $881,000 compared to $335,000 during the three months ended June 30, 2017.

- Mortgage banking income increased $75,000 or 22.4% to $410,000 from $335,000. Loans sold balances were as follows:

- $16.9 million (representing 136 loans) for the three months ended June 30, 2018
- $17.7 million (representing 138 loans) for the three months ended June 30, 2017

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

- Revenue from ATMs and debit cards increased $195,000 or 11.7% to $1,860,000 from $1,665,000 due to an increase in electronic transactions.

- Bank owned life insurance income increased $33,000 or 11.7%.

- Other income decreased $804,000 or 55.1% to $655,000 from $1,459,000 primarily due to income tax refunds received in 2017 resulting from overpayment of taxes in 2016 by First Clover Leaf Financial and a decline in loan late charges and closing fees resulting from less loan transaction activity.

Following are explanations of the changes in these other income categories for the six months ended June 30, 2018 compared to the same period in 2017:

- Trust revenues increased $244,000 or 13.8% to $2,015,000 from $1,771,000 primarily from an increase in revenue from defined contribution and other retirement accounts due to increases in the market value of the assets. Trust assets, at market value, were $998.0 million at June 30, 2018 compared to $881.5 million at June 30, 2017.

- Revenues from brokerage increased $312,000 or 30.8% to $1,326,000 from $1,014,000 primarily due to an increase in the number of brokerage accounts from new business development efforts.

- Insurance commissions decreased $153,000 or 6.2% to $2,325,000 from $2,478,000 primarily due to a decrease in commissions and contingency income received from carriers based on claims experience during 2018 compared to 2017.

- Fees from service charges increased $36,000 or 1.1% to $3,438,000 from $3,402,000 primarily due to a increase in income from the First Bank acquisition offset by a decrease in service charges based on the number of deposit transactions.

- The sale of securities during the six months ended June 30, 2018 resulted in net securities gains of $901,000 compared to $335,000 during the six months ended June 30, 2017.

- Mortgage banking income increased $43,000 or 8.1% to $571,000 from $528,000. Loans sold balances were as follows:

- $28.4 million (representing 222 loans) for the six months ended June 30, 2018
- $31.5 million (representing 241 loans) for the six months ended June 30, 2017

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

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- Revenue from ATMs and debit cards increased $231,000 or 7.1% to $3,464,000 from $3,233,000 due to an increase in electronic transactions.

- Bank owned life insurance income increased $28,000 or 5.0%.

- Other income decreased $924,000 or 43.2% to $1,217,000 from $2,141,000 primarily due to income tax refunds received in 2017 resulting from overpayment of taxes in 2016 by First Clover Leaf Financial and a decline in loan late charges and closing fees resulting from less loan transaction activity.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the three and six-months ended June 30, 2018 and 2017 (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2018	2017	$ Change	2018	2017	$ Change
Salaries and employee benefits	$11,057	$10,102	$955	$21,251	$20,037	$1,214
Net occupancy and equipment expense	3,505	3,116	389	6,778	6,249	529
Net other real estate owned expense	7	127	(120)	83	145	(62)
FDIC insurance	285	290	(5)	566	469	97
Amortization of intangible assets	716	559	157	1,221	1,106	115
Stationery and supplies	186	186	—	397	371	26
Legal and professional	1,717	894	823	2,854	1,725	1,129
Marketing and donations	431	277	154	785	571	214
Other operating expenses	2,892	2,404	488	5,235	6,484	(1,249)
Total other expense	$20,796	$17,955	$2,841	$39,170	$37,157	$2,013

Following are explanations for the changes in these other expense categories for the three months ended June 30, 2018 compared to the same period in 2017:

- Salaries and employee benefits, the largest component of other expense, increased $955,000 or 9.5% to $11,057,000 from $10,102,000. The increase is primarily due to the addition of 112 employees with the First Bank acquisition on May 1, 2018 and merit increases in 2018 for continuing employees during the first quarter of 2018. There were 711 and 590 full-time equivalent employees at June 30, 2018 and 2017, respectively.

- Occupancy and equipment expense increased $389,000 or 12.5% to $3,505,000 from $3,116,000. The increase was primarily due to increases maintenance and repair expense, rent expense, and building insurance related to the acquisition of First Bank during the second quarter of 2018.

- Net other real estate owned expense decreased $120,000 or 94.5% to $7,000 from $127,000. The decrease in 2018 was primarily due to more losses on properties sold during 2017 than properties sold in 2018.

- Expense for amortization of intangible assets increased $157,000 or 28.1% to $716,000 from $559,000 for the three months ended June 30, 2018 and 2017, respectively. The increase in 2018 was due to additional core deposit intangibles amortization from the acquisition of First Bank.

- Other operating expenses increased $488,000 or 20.3% to $2,892,000 in 2018 from $2,404,000 in 2017 primarily due costs associated with the acquisition of First Bank.

- On a net basis, all other categories of operating expenses increased $972,000 or 59.0% to $2,619,000 in 2018 from $1,647,000 in 2017. The increase is primarily due to an increase in legal and professional fees primarily associated with the acquisition of First Bank.

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Following are explanations for the changes in these other expense categories for the six months ended June 30, 2018 compared to the same period in 2017:

- Salaries and employee benefits, the largest component of other expense, increased $1,214,000 or 6.1% to $21,251,000 from $20,037,000. The increase is primarily due to the addition of 112 employees with the First Bank acquisition and merit increases in 2018 for continuing employees during the first quarter of 2018. There were 711 and 590 full-time equivalent employees at June 30, 2018 and 2017, respectively.

- Occupancy and equipment expense increased $529,000 or 8.5% to $6,778,000 from $6,249,000. The increase was primarily due to increases maintenance and repair expense, rent expense, and building insurance related to the acquisition of First Bank.

- Net other real estate owned expense decreased $62,000 or 42.8% to $83,000 from $145,000. The increase in 2018 was primarily due to losses on properties sold during 2017.

- Expense for amortization of intangible assets increased $115,000 or 10.4% to $1,221,000 from $1,106,000 for the six months ended June 30, 2018 and 2017, respectively. The increase in 2018 was due to amortization of core deposit intangibles from the First Bank acquisition.

- Other operating expenses decreased $1,249,000 or 19.3% to $5,235,000 in 2018 from $6,484,000 in 2017 primarily due costs associated with the merger of First Clover Leaf Bank into First Mid Bank during the first quarter of 2017.

- On a net basis, all other categories of operating expenses increased $1,466,000 or 46.7% to $4,602,000 in 2018 from $3,136,000 in 2017. The increase is primarily due to an increase in legal and professional fees primarily associated with the acquisition of First Bank.

Income Taxes

Total income tax expense amounted to $6.0 million (24.4% effective tax rate) for the six months ended June 30, 2018, compared to $7.0 million (32.6% effective tax rate) for the same period in 2017. The decline in effective tax rate for the six months ended June 30, 2018 compared to the same period in 2017 is primarily due to a change in the federal statutory corporate tax rate from 35% to 21% effective January 1, 2018 following the enactment of certain tax reforms through the Tax Cuts and Jobs Act, offset by an increase in State of Illinois tax rate from 7.75% to 9.50% beginning July 1, 2017.

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

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Analysis of Balance Sheets

Securities

The Company’s overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company’s current and projected liquidity and interest rate sensitivity positions. The following table sets forth the amortized cost of the available-for-sale and held-to-maturity securities as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$196,725	2.14 %	$185,128	1.98 %
Obligations of states and political subdivisions	176,376	2.99 %	165,037	2.86 %
Mortgage-backed securities: GSE residential	323,238	2.84 %	295,778	2.59 %
Trust preferred securities	—	— %	2,893	2.15 %
Other securities	2,187	3.25 %	2,039	2.50 %
Total securities	$698,526	2.68 %	$650,875	2.55 %

At June 30, 2018, the Company’s investment portfolio increased by $47.7 million from December 31, 2017 primarily due to securities added in the acquisition of First Bank, net of declines due to securities that were sold to provide cash flow to fund loans. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed. The table below presents the credit ratings as of June 30, 2018 for certain investment securities (in thousands):

	Amortized Cost	Estimated Fair Value	Average Credit Rating of Fair Value at June 30, 2018 (1)					
			AAA	AA +/-	A +/-	BBB +/-	< BBB -	Not rated
Available-for-sale:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$127,342	$123,038	$—	$123,038	$—	$—	$ —	$—
Obligations of state and political subdivisions	176,376	175,240	13,041	108,364	51,733	494	—	1,608
Mortgage-backed securities (2)	323,238	315,671	1,018	—	—	—	—	314,653
Other securities	2,187	2,354	—	—	—	2,013	—	341
Total available-for-sale	$629,143	$616,303	$14,059	$231,402	$51,733	$2,507	$ —	$316,602
Held-to-maturity:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$69,383	$67,525	$—	$67,525	$—	$—	$ —	$—

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

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

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Other-than-temporary Impairment of Securities

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

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

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

If the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, the entire amount of OTTI is recorded to noninterest income, and therefore, results in a negative impact to net income. Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact the Company's equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income/loss.

If the Company does not intend to sell the security and it is not more-likely-than-not it will be required to sell the security before recovery of its amortized cost basis, only the amount related to credit loss is recognized in earnings. In determining the portion of OTTI that is related to credit loss, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. The remaining portion of OTTI, related to other factors, is recognized in other comprehensive earnings, net of applicable taxes.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. See Note 3 -- Investment Securities in the Notes to Condensed Consolidated Financial Statements (unaudited) for a discussion of the Company's evaluation and subsequent charges for OTTI.

Loans

The loan portfolio (net of unearned interest) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio, including loans held for sale, as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	% Outstanding Loans		December 31, 2017	% Outstanding Loans	
Construction and land development	$88,481	3.7	%	$ 107,594	5.5	%
Agricultural real estate	184,887	7.8	%	127,183	6.6	%
1-4 Family residential properties	378,573	15.9	%	293,667	15.1	%
Multifamily residential properties	105,948	4.5	%	61,798	3.2	%
Commercial real estate	803,362	33.8	%	681,757	35.2	%
Loans secured by real estate	1,561,251	65.7	%	1,271,999	65.6	%
Agricultural loans	113,533	4.8	%	86,631	4.5	%
Commercial and industrial loans	502,211	21.1	%	444,263	22.9	%
Consumer loans	59,090	2.5	%	29,749	1.5	%
All other loans	140,598	5.9	%	106,859	5.5	%
Total loans	$2,376,683	100.0	%	$ 1,939,501	100.0	%

Overall loan balances increased $437.2 million, or 22.54% primarily due to the loans acquired from First Bank. The balance of real estate loans held for sale, included in the balances shown above, amounted to $2,454,000 and $1,025,000 as of June 30, 2018 and December 31, 2017, respectively.

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

The following table summarizes the loan portfolio geographically by branch region as of June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018			December 31, 2017		
	Principal balance	% Outstanding Loans		Principal balance	% Outstanding loans	
Central region	568,215	23.9	%	543,938	28.0	%
Sullivan region	176,612	7.4	%	167,977	8.7	%
Decatur region	750,960	31.6	%	378,867	19.5	%
Peoria region	213,988	9.0	%	189,639	9.8	%
Highland region	529,760	22.3	%	525,983	27.1	%
Southern region	137,148	5.8	%	133,097	6.9	%
Total all regions	$2,376,683	100.0	%	$1,939,501	100.0	%

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

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The Company does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of total risk-based capital for the periods shown above. At June 30, 2018 and December 31, 2017, the Company did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	June 30, 2018			December 31, 2017		
	Principal balance	% Outstanding Loans		Principal balance	% Outstanding Loans	
Other grain farming	$172,331	7.25	%	$170,758	8.80	%
Lessors of non-residential buildings	189,740	7.98	%	185,967	9.59	%
Lessors of residential buildings & dwellings	130,016	5.47	%	131,756	6.79	%
Hotels and motels	121,052	5.09	%	131,702	6.79	%
Other Gambling Industries	95,407	4.01	%	95,713	4.93	%

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

The following table presents the balance of loans outstanding as of June 30, 2018, by contractual maturities (in thousands):

	Maturity (1)			
	One year or less(2)	Over 1 through 5 years	Over 5 years	Total
Construction and land development	$71,002	$5,645	$11,834	$88,481
Agricultural real estate	11,012	48,883	124,992	184,887
1-4 Family residential properties	32,190	84,066	262,317	378,573
Multifamily residential properties	16,463	51,782	37,703	105,948
Commercial real estate	75,866	322,140	405,356	803,362
Loans secured by real estate	206,533	512,516	842,202	1,561,251
Agricultural loans	86,478	24,409	2,646	113,533
Commercial and industrial loans	179,346	272,382	50,483	502,211
Consumer loans	5,588	46,324	7,178	59,090
All other loans	29,278	37,530	73,790	140,598
Total loans	$507,223	$893,161	$976,299	$2,376,683

(1) Based upon remaining contractual maturity.
(2) Includes demand loans, past due loans and overdrafts.

As of June 30, 2018, loans with maturities over one year consisted of approximately $1.5 billion in fixed rate loans and approximately $383 million in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Nonperforming Other Assets

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

The Company's policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual

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status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

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

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018		December 31, 2017	
Nonaccrual loans	$21,650		$ 16,659	
Restructured loans which are performing in accordance with revised terms	3,079		854	
Total nonperforming loans	24,729		17,513	
Repossessed assets	2,508		2,834	
Total nonperforming loans and repossessed assets	$27,237		$ 20,347	
Nonperforming loans to loans, before allowance for loan losses	1.04	%	0.90	%
Nonperforming loans and repossessed assets to loans, before allowance for loan losses	1.15	%	1.05	%

The $4,991,000 increase in nonaccrual loans during 2018 resulted from the net of $6,754,000 of loans put on nonaccrual status including $2,242,000 acquired from First Bank offset by $2,338,000 of loans becoming current or paid-off, $133,000 of loans transferred to other real estate and $533,000 of loans charged off.

The following table summarizes the composition of nonaccrual loans (in thousands):

	June 30, 2018			December 31, 2017		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$58	0.3	%	$—	—	%
Agricultural real estate	235	1.1	%	291	1.7	%
1-4 Family residential properties	4,323	20.0	%	2,687	16.1	%
Multifamily Residential properties	301	1.4	%	368	2.2	%
Commercial real estate	7,909	36.5	%	5,596	33.6	%
Loans secured by real estate	12,826	59.3	%	8,942	53.6	%
Agricultural loans	1,109	5.1	%	757	4.5	%
Commercial and industrial loans	7,365	34.0	%	6,658	40.1	%
Consumer loans	329	1.5	%	302	1.8	%
All Other Loans	21	0.1	%	—	—	%
Total loans	$21,650	100.0	%	$16,659	100.0	%

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled $758,000 and $140,000 for the six months ended June 30, 2018 and 2017, respectively.

The $326,000 decrease in repossessed assets during the first six months of 2018 resulted from the net of $625,000 of assets acuired from First Bank, $217,000 of additional assets repossessed, $12,000 of write downs and $1,156,000 of

repossessed assets sold.

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The following table summarizes the composition of repossessed assets (in thousands):

	June 30, 2018			December 31, 2017		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$1,920	76.6	%	$1,781	62.7	%
1-4 family residential properties	520	20.7	%	413	14.6	%
Commercial real estate	—	—	%	560	19.8	%
Total real estate	2,440	97.3	%	2,754	97.1	%
Commercial & industrial loans	—	—	%	44	1.6	%
Consumer loans	68	2.7	%	36	1.3	%
Total repossessed collateral	$2,508	100.0	%	$2,834	100.0	%

Repossessed assets sold during the first six months of 2018 resulted in net losses of $11,000, of which $23,000 of net losses was related to real estate asset sales and $12,000 of net gains was related to other repossessed assets. Repossessed assets sold during the same period in 2017 resulted in net gains of $4,000, all of $9,000 of net losses was related to real estate asset sales and $13,000 of net gains was related to other repossessed assets.

Loan Quality and Allowance for Loan Losses

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

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

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in east central Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At June 30, 2018, the Company's loan portfolio included $299.0 million of loans to borrowers whose businesses are directly related to agriculture. Of this amount, $172.3 million was concentrated in other grain farming. Total loans to borrowers whose businesses are directly related to agriculture increased $85.24 million from $213.8 million at December 31, 2017 while loans concentrated in other grain farming increased $1.5 million from $170.8 million at December 31, 2017. While the Company adheres to sound underwriting practices,

including collateralization of loans, any extended period of low commodity prices, drought conditions, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio. In addition, the Company has $121.1 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has $189.7 million of loans to lessors of non-residential buildings, $130.0 million of loans to lessors of residential buildings and dwellings, and $95.4 million of loans to other gambling industries.

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

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

Analysis of the allowance for loan losses as of June 30, 2018 and 2017, and of changes in the allowance for the three and six month periods ended June 30, 2018 and 2017, is as follows (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Average loans outstanding, net of unearned income	$2,244,639	$1,805,619	$2,101,194	$1,815,417
Allowance-beginning of period	20,771	17,846	19,977	16,753
Charge-offs:				
Real estate-mortgage	588	162	780	351
Commercial, financial & agricultural	3	1,421	151	1,893
Installment	43	50	83	72
Other	85	85	181	165
Total charge-offs	719	1,718	1,195	2,481
Recoveries:				
Real estate-mortgage	55	161	56	171
Commercial, financial & agricultural	(2)	37	121	51
Installment	11	6	35	10
Other	52	37	119	143
Total recoveries	116	241	331	375
Net charge-offs (recoveries)	603	1,477	864	2,106
Provision for loan losses	1,877	1,840	2,932	3,562
Allowance-end of period	$22,045	$18,209	$22,045	$18,209
Ratio of annualized net charge-offs to average loans	0.11 %	0.33 %	0.08 %	0.46 %
Ratio of allowance for loan losses to loans outstanding (less unearned interest at end of period)	0.93 %	1.00 %	0.93 %	1.00 %
Ratio of allowance for loan losses to nonperforming loans	89 %	106 %	89 %	106 %

The ratio of allowance for loan losses to loans outstanding was 0.93% as of June 30, 2018 compared to 1.00% as of June 30, 2017. The ratio of the allowance for loan losses to nonperforming loans is 89% as of June 30, 2018 compared to 106% as of June 30, 2017. The decrease in this ratio is primarily due to an increase in loan balances and the increase in nonperforming loans to $24.7 million at June 30, 2018 from $17.1 million at June 30, 2017 including $6.6

million in non-performing loans acquired from First Bank.

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During the first six months of 2018, the Company had net charge-offs of $864,000 compared to net charge-offs of $2,106,000 in 2017. During the first six months of 2018, there were significant charge offs of two commercial loans to a single borrower of $126,000 and charge offs of two residential real estate loans to two borrowers of $376,000. During the first six months of 2017, there were charge offs of commercial real estate loans to two borrowers of $215,000, charge offs of two agricultural loans to one borrower of $662,000, and charge offs of five commercial operating loans to two borrowers of $1,052,000.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for the six months ended June 30, 2018 and 2017 and for the year ended December 31, 2017 (dollars in thousands):

	Six months ended June 30, 2018			Six months ended June 30, 2017			Year ended December 31, 2017		
	Average Balance	Weighted Average Rate		Average Balance	Weighted Average Rate		Average Balance	Weighted Average Rate	
Demand deposits:									
Non-interest-bearing	$486,930	—	%	$438,839	—	%	$438,575	—	%
Interest-bearing	1,116,810	0.20	%	1,128,273	0.14	%	1,119,835	0.16	%
Savings	381,356	0.15	%	369,180	0.13	%	367,261	0.13	%
Time deposits	400,679	0.76	%	367,484	0.43	%	348,278	0.49	%
Total average deposits	$2,385,775	0.25	%	$2,303,776	0.16	%	$2,273,949	0.18	%

The following table sets forth the high and low month-end balances for the six months ended June 30, 2018 and 2017 and for the year ended December 31, 2017 (in thousands):

	Six months ended June 30, 2018	Six months ended June 30, 2017	Year ended December 31, 2017
High month-end balances of total deposits	$2,670,864	$2,331,084	$2,331,084
Low month-end balances of total deposits	2,208,941	2,282,214	2,217,477

During the first six months of 2018, the average balance of deposits increased by $111.8 million from the average balance for the year ended December 31, 2017. Average non-interest bearing deposits increased by $48.4 million, average interest-bearing balances decreased by $3.0 million, savings account balances increased $14.1 million and balances of time deposits increased $52.4 million. The increases were primarily due to the result of deposit balances acquired in the acquisition of First Bank during the second quarter of 2018.

Balances of time deposits of $100,000 or more include time deposits maintained for public fund entities and consumer time deposits. The following table sets forth the maturity of time deposits of $100,000 or more at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
3 months or less	$51,229	$ 31,467
Over 3 through 6 months	76,406	34,194
Over 6 through 12 months	69,585	54,607

Over 12 months	66,357	46,805
Total	$263,577	$ 167,073

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Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank. These obligations are collateralized with certain government securities that are direct obligations of the United States or one of its agencies. These retail repurchase agreements are offered as a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, loans (short-term or long-term debt) that the Company has outstanding and junior subordinated debentures.

Information relating to securities sold under agreements to repurchase and other borrowings as of June 30, 2018 and December 31, 2017 is presented below (dollars in thousands):

	June 30, 2018	December 31, 2017
Securities sold under agreements to repurchase	$141,662	$ 155,388
Federal Home Loan Bank advances:		
Fixed term – due in one year or less	14,000	—
Fixed term – due after one year	81,708	60,038
Debt:		
Debt due after one year	9,375	10,313
Junior subordinated debentures	28,792	24,000
Total	$275,537	$ 249,739
Average interest rate at end of period	1.26 %	1.00 %
Maximum outstanding at any month-end:		
Securities sold under agreements to repurchase	$178,587	$ 163,626
Federal funds purchased	11,750	20,000
Federal Home Loan Bank advances:		
FHLB-Overnight	30,000	30,000
Fixed term – due in one year or less	14,000	5,000
Fixed term – due after one year	86,016	60,061
Debt:		
Debt due in one year or less	—	4,000
Debt due after one year	10,313	14,063
Junior subordinated debentures	30,221	24,000
Averages for the period (YTD):		
Securities sold under agreements to repurchase	$155,023	$ 144,674
Federal funds purchased	3,510	3,996
Federal Home Loan Bank advances:		
FHLB-overnight	14,740	8,598
Fixed term – due in one year or less	4,663	2,356
Fixed term – due after one year	64,345	46,452
Debt:		
Loans due in one year or less	—	658
Loans due after one year	9,836	12,632
Junior subordinated debentures	25,862	23,956
Total	$277,979	$ 243,322
Average interest rate during the period	1.23 %	1.02 %

Securities sold under agreements to repurchase decreased $13.7 million during the first six months of 2018 primarily due to the seasonal declines in balances and cash flow needs of various customers. FHLB advances represent borrowings by First Mid Bank and First Bank to economically fund loan demand.

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At June 30, 2018 the fixed term advances consisted of $96 million as follows:

- $5 million advance with a 3-month maturity, at 2.11%, due August 23, 2018
- $5 million advance with a 6-month maturity, at 2.10%, due October 16, 2018
- $10 million advance with a 3-year maturity, at 1.42%, due November 5, 2018
- $5 million advance with a 1.5-year maturity, at 1.49%, due December 28, 2018
- $4 million advance with a 3-year maturity, at 1.72% due April 12, 2019
- $5 million advance with a 2-year maturity, at 1.56%, due June 28, 2019
- $5 million advance with a 15-month maturity, at 2.63%, due September 27, 2019
- $2 million advance with a 5-year maturity, at 1.89%, due October 17, 2019
- $5 million advance with a 1.5-year maturity, at 2.67%, due December 27, 2019
- $5 million advance with a 2.5-year maturity, at 1.67%, due January 31, 2020
- $5 million advance with a 4-year maturity, at 1.79%, due April 30, 2020
- $5 million advance with a 2-year maturity, at 2.75%, due June 26, 2020
- $5 million advance with a 3-year maturity, at 1.75%, due July 31, 2020
- $5 million advance with a 6-year maturity, at 2.30%, due August 24, 2020
- $5 million advance with a 3.5-year maturity, at 1.83%, due February 1, 2021
- $5 million advance with a 5-year maturity, at 1.85%, due April 12, 2021
- $5 million advance with a 7-year maturity, at 2.55%, due October 1, 2021
- $5 million advance with a 5-year maturity, at 2.71%, due March 21, 2022
- $5 million advance with a 8-year maturity, at 2.40%, due January 9, 2023

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of $10 million. The balance on this line of credit was $0 as of June 30, 2018. This loan was renewed on April 13, 2018 for one year as a revolving credit agreement with a maximum available balance of $10 million. The interest rate is floating at 2.25% over the federal funds rate (4.16% at June 30, 2018). The loan is secured by all of the stock of First Mid Bank. The Company and First Mid Bank were in compliance with the then existing covenants at June 30, 2018 and 2017 and December 31, 2017.

On September 7, 2016, the Company entered into a credit agreement with The Northern Trust Company in the amount of $15 million as a fixed-rate note with a maturity date of September 7, 2020. This credit agreement was amended and restated on April 13, 2018. The interest rate is floating at 2.25% over the federal funds rate (4.16% at June 30, 2018) and interest and principal payments are due quarterly. As of June 30, 2018, the balance due was $9.4 million. The loan is secured by all of the stock of First Mid Bank. The Company used the proceeds of this note to fund the cash portion of the acquisition price of First Clover Leaf. The Company and First Mid Bank were in compliance with the then existing covenants at June 30, 2018 and December 31, 2017.

On February 27, 2004, the Company completed the issuance and sale of $10 million of floating rate trust preferred securities through First Mid-Illinois Statutory Trust I ("Trust I"), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust I for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company's investment in common equity of Trust I, a total of $10,310,000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust I mature in 2034, bear interest at three-month London Interbank Offered Rate ("LIBOR") plus 280 basis points (4.01% and 4.21% at June 30, 2018 and December 31, 2017), reset quarterly, and are callable at par, at the option of the Company, quarterly. The Company used the proceeds of the offering for general corporate purposes.

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Explanation of Responses:

On April 26, 2006, the Company completed the issuance and sale of $10 million of fixed/floating rate trust preferred securities through First Mid-Illinois Statutory Trust II (“Trust II”), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company’s investment in common equity of Trust II, a total of $10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bore interest at a fixed rate of 6.98% paid quarterly until June 15, 2011 and then converted to floating rate (LIBOR plus 160 basis points, 3.94% and 3.19% at June 30, 2018 and December 31, 2017, respectively). The net proceeds to the Company were used for general corporate purposes, including the Company’s acquisition of Mansfield Bancorp, Inc. in 2006.

On September 8, 2016, the Company assumed the trust preferred securities of Clover Leaf Statutory Trust I (“CLST I”), a statutory business trust that was a wholly owned unconsolidated subsidiary of First Clover Financial. The $4,000,000 of trust preferred securities and an additional $124,000 additional investment in common equity of CLST I, is invested in junior subordinated debentures issued to CLST I. The subordinated debentures mature in 2025, bear interest at three-month LIBOR plus 185 basis points (4.19% and 3.44% at June 30, 2018 and December 31, 2017, respectively) and resets quarterly.

On May 1, 2018, the Company assumed the trust preferred securities of FBTC Statutory Trust I (“FBTCST I”), a statutory business trust that was a wholly owned unconsolidated subsidiary of First BancTrust Corporation. The $6,000,000 of trust preferred securities and an additional $186,000 additional investment in common equity of FBTCST I is invested in junior subordinated debentures issued to FBTCST I. The subordinated debentures mature in 2035, bear interest at three-month LIBOR plus 170 basis points (4.04% and 3.29% at June 30, 2018 and December 31, 2017, respectively) and resets quarterly.

The trust preferred securities issued by Trust I, Trust II, CLST I and FBTCST I are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending September 30, 2010, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until March 31, 2012. The application of the revised quantitative limits did not and is not expected to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The Dodd-Frank Act, signed into law July 21, 2010, removes trust preferred securities as a permitted component of a holding company’s Tier 1 capital after a three-year phase-in period beginning January 1, 2013 for larger holding companies. For holding companies with less than $15 billion in consolidated assets, existing issues of trust preferred securities are grandfathered and not subject to this new restriction. Similarly, the final rule implementing the Basel III reforms allows holding companies with less than $15 billion in consolidated assets as of December 31, 2009 to continue to count toward Tier 1 capital any trust preferred securities issued before May 19, 2010. New issuances of trust preferred securities, however would not count as Tier 1 regulatory capital.

In addition to requirements of the Dodd-Frank Act discussed above, the act also required the federal banking agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This rule is generally referred to as the “Volcker Rule.” On December 10, 2013, the federal banking agencies issued final rules to implement the prohibitions required by the Volcker Rule. Following the publication of the final rule, and in reaction to concerns in the banking industry regarding the adverse impact the final rule’s treatment of certain collateralized debt instruments has on community banks, the federal banking agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities.

Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities under $15 billion in assets if (1) the collateralized debt obligation was established and issued prior to May 19, 2010, (2) the banking entity reasonably believes that the offering proceeds received by the collateralized debt obligation were invested primarily in qualifying trust preferred collateral, and (3) the banking entity's interests in the collateralized debt obligation was acquired on or prior to December 10, 2013. Although the Volcker Rule impacts many large banking entities, the Company does not currently anticipate that the Volcker Rule will have a material effect on the operations of the Company or First Mid Bank.

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Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of interest-bearing assets differ significantly from the maturity or repricing characteristics of interest-bearing liabilities. The Company monitors its interest rate sensitivity position to maintain a balance between rate sensitive assets and rate sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet. The following table sets forth the Company's interest rate repricing GAP for selected maturity periods at June 30, 2018 (dollars in thousands):

	Rate Sensitive Within							Fair Value
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total	
Interest-earning assets:								
Federal funds sold and other interest-bearing deposits	$38,658	$—	$—	$—	$—	$—	$38,658	$38,658
Certificates of deposit investments	1,490	490	950	—	—	—	2,930	2,930
Taxable investment securities	341	1	16,476	31,315	27,070	435,244	510,447	508,588
Nontaxable investment securities	—	923	2,849	5,786	2,375	163,306	175,239	175,240
Loans	880,537	281,769	350,053	273,919	270,514	319,891	2,376,683	2,323,768
Total	$921,026	$283,183	$370,328	$311,020	$299,959	$918,441	$3,103,957	$3,049,184
Interest-bearing liabilities:								
Savings and NOW accounts	$296,671	$102,242	$102,242	$102,242	$102,242	$481,008	$1,186,647	$1,186,647
Money market accounts	314,067	19,028	19,028	19,028	19,028	44,380	434,559	434,559
Other time deposits	364,682	85,932	40,077	17,822	13,419	1,609	523,541	521,119
Short-term borrowings/debt	141,662	—	—	—	—	—	141,662	141,645
Long-term borrowings/debt	72,154	26,900	19,865	9,956	5,000	—	133,875	128,279
Total	$1,189,236	$234,102	$181,212	$149,048	$139,689	$526,997	$2,420,284	$2,412,249
Rate sensitive assets – rate	$(268,210)	$49,081	$189,116	$161,972	$160,270	$391,444	$683,673	

sensitive liabilities						
Cumulative GAP	(268,210)	(219,129)	(30,013)	131,959	292,229	683,673
Cumulative amounts as % of total Rate sensitive assets	(8.6)%	1.6 %	6.1 %	5.2 %	5.2 %	12.6 %
Cumulative Ratio	(8.6)%	(7.1)%	(1.0)%	4.3 %	9.4 %	22.0 %

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The static GAP analysis shows that at June 30, 2018, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates could have an adverse effect on net interest income. There are several ways the Company measures and manages the exposure to interest rate sensitivity, including static GAP analysis. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's and First Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities. The Company is currently experiencing downward pressure on asset yields resulting from the extended period of historically low interest rates and heightened competition for loans. A continuation of this environment could result in a decline in interest income and the net interest margin.

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Capital Resources

At June 30, 2018, the Company’s stockholders' equity increased $103 million, or 34%, to $411 million from $308 million as of December 31, 2017. During the first six months of 2018, net income contributed $18.4 million to equity before the payment of dividends to stockholders, stock issued in the acquisition for First Bank contributed $61.4 million and stock issued following the capital raise, net of direct issuance costs, contributed $34 million. The change in market value of available-for-sale investment securities decreased stockholders' equity by $7.0 million, net of tax.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Bank holding companies follow minimum regulatory requirements established by the Board of Governors of the Federal Reserve System (“Federal Reserve System”), and First Mid Bank and First Bank follows similar minimum regulatory requirements established for national banks by the Office of the Comptroller of the Currency (“OCC”). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Quantitative measures established by regulatory capital standards to ensure capital adequacy require the the Company and its subsidiary bank to maintain a minimum capital amounts and ratios (set forth in the table below). Management believes that, as of June 30, 2018 and December 31, 2017, the Company, First Mid Bank, and First Bank met all capital adequacy requirements.

To be categorized as well-capitalized, total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier 1 leverage ratios must be maintained as set forth in the following table (dollars in thousands):

	Actual		Required Minimum For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018						
Total Capital (to risk-weighted assets)						
Company	$377,616	13.97%	$266,848	> 9.875%	N/A	N/A
First Mid Bank	290,953	12.55	228,997	> 9.875	$231,895	> 10.00%
First Bank & Trust	44,809	11.98	36,945	> 9.875	37,413	> 10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	355,572	13.16	212,803	> 7.875	N/A	N/A
First Mid Bank	269,228	11.61	182,618	> 7.875	185,516	> 8.00
First Bank & Trust	44,490	11.89	29,463	> 7.875	29,930	> 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	325,572	12.05	172,269	> 6.375	N/A	N/A
First Mid Bank	269,228	11.61	147,833	> 6.375	150,732	> 6.50
First Bank & Trust	44,490	11.89	23,851	> 6.375	24,318	> 6.50
Tier 1 Capital (to average assets)						
Company	355,572	10.99	129,362	> 4.00	N/A	N/A
First Mid Bank	269,228	9.71	110,939	> 4.00	138,673	> 5.00
First Bank & Trust	44,490	9.80	18,156	> 4.00	22,696	> 5.00
December 31, 2017						
Total Capital (to risk-weighted assets)						
Company	$290,843	12.70%	$211,848	> 9.25%	N/A	N/A
First Mid Bank	282,621	12.39	211,064	> 9.25	$228,177	> 10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	270,866	11.83	166,043	> 7.25	N/A	N/A
First Mid Bank	262,644	11.51	165,428	> 7.25	182,542	> 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)						
Company	246,866	10.78	131,690	> 5.75	N/A	N/A
First Mid Bank	262,644	11.51	131,202	> 5.75	148,315	> 6.50
Tier 1 Capital (to average assets)						
Company	270,866	9.91	109,381	> 4.00	N/A	N/A
First Mid Bank	262,644	9.63	109,113	> 4.00	136,392	> 5.00

The Company's risk-weighted assets, capital and capital ratios for June 30, 2018 are computed in accordance with Basel III capital rules which were effective January 1, 2015. Prior periods are computed following previous rules. See heading "Basel III" in the Overview section of this report for a more detailed description of the Basel III rules. As of June 30, 2018, both the Company, First Mid Bank, and First Bank had capital ratios above the required minimums for regulatory capital adequacy, and First Mid Bank had capital ratios that qualified it for treatment as well-capitalized under the regulatory framework for prompt corrective action with respect to banks.

Stock Plans

Participants may purchase Company stock under the following four plans of the Company: the Deferred Compensation Plan, the First Retirement and Savings Plan, the Dividend Reinvestment Plan, and the Stock Incentive

Plan. For more detailed information on these plans, refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

A maximum of 149,983 shares of common stock may be issued under the SI Plan. There were no stock options granted in 2017 or 2016. The Company awarded 13,250 restricted stock awards during 2018 and 15,450 and 18,391 as stock unit awards during 2018 and 2017, respectively.

Employee Stock Purchase Plan

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

Stock Repurchase Program

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

- On August 5, 1998, repurchases of up to 3%, or $2 million, of the Company’s common stock.
- In March 2000, repurchases up to an additional 5%, or $4.2 million of the Company’s common stock.
- In September 2001, repurchases of $3 million of additional shares of the Company’s common stock.
- In August 2002, repurchases of $5 million of additional shares of the Company’s common stock.
- In September 2003, repurchases of $10 million of additional shares of the Company’s common stock.
- On April 27, 2004, repurchases of $5 million of additional shares of the Company’s common stock.
- On August 23, 2005, repurchases of $5 million of additional shares of the Company’s common stock.
- On August 22, 2006, repurchases of $5 million of additional shares of the Company’s common stock.
- On February 27, 2007, repurchases of $5 million of additional shares of the Company’s common stock.
- On November 13, 2007, repurchases of $5 million of additional shares of the Company’s common stock.
- On December 16, 2008, repurchases of $2.5 million of additional shares of the Company’s common stock.
- On May 26, 2009, repurchases of $5 million of additional shares of the Company’s common stock.
- On February 22, 2011, repurchases of $5 million of additional shares of the Company’s common stock.
- On November 13, 2012, repurchases of $5 million of additional shares of the Company's common stock.
- On November 19, 2013, repurchases of $5 million additional shares of the Company's common stock.
- On October 28, 2014, repurchases of $5 million additional shares of the Company's common stock.

During the six months ended June 30, 2018, the Company repurchased 2,588 shares at $95,109. These shares were a result of of cancellation of shares withheld in conjunction with vested options of one First Bank employee. The shares were withheld to cover payroll taxes. Since 1998, the Company has repurchased a total of 2,063,727 shares at a total price of approximately $70.3 million. As of June 30, 2018, the Company is authorized per all repurchase programs to purchase $6.3 million in additional shares.

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Liquidity

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

- First Mid Bank has $35 million available in overnight federal fund lines, including $10 million from U.S. Bank, N.A., $10 million from Wells Fargo Bank, N.A. and $15 million from The Northern Trust Company. Availability of the funds is subject to First Mid Bank meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total average assets. As of June 30, 2018, First Mid Bank met these regulatory requirements.

- First Mid Bank and First Bank can borrow from the Federal Home Loan Bank as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the Federal Home Loan Bank. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At June 30, 2018, the excess collateral at the FHLB would support approximately $195.0 million of additional advances for First Mid Bank and First Bank.

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

- In addition, as of June 30, 2018, the Company had a revolving credit agreement in the amount of $10 million with The Northern Trust Company with an outstanding balance of $0 and $10 million in available funds. This loan was renewed on April 13, 2018 for one year as a revolving credit agreement. The interest rate is floating at 2.25% over the federal funds rate. The loan is secured by all of the stock of First Mid Bank, including requirements for operating and capital ratios. The Company and its subsidiary bank were in compliance with the then existing covenants at June 30, 2018 and 2017 and December 31, 2017.

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

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

The following table summarizes significant contractual obligations and other commitments at June 30, 2018 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	$523,541	$364,682	$126,009	$31,241	$1,609
Debt	40,181	3,750	5,625	—	30,806
Other borrowings	237,662	175,662	47,000	15,000	—
Operating leases	43,956	2,611	4,074	3,798	33,473

Supplemental retirement	565	100	120	100	245
	$845,905	$546,805	$182,828	$50,139	$66,133

For the six months ended June 30, 2018, net cash of $18.0 million and $31.2 million was provided from operating activities and financing activities, respectively, and $52.5 million was used in investing activities. In total, cash and cash equivalents decreased by $3.3 million since year-end 2017.

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Off-Balance Sheet Arrangements

First Mid Bank and First Bank enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments. However, the Company does not anticipate any losses from these instruments.

The off-balance sheet financial instruments whose contract amounts represent credit risk at June 30, 2018 and December 31, 2017 were as follows (in thousands):

	June 30, 2018	December 31, 2017
Unused commitments and lines of credit:		
Commercial real estate	$64,091	$ 73,268
Commercial operating	256,440	223,960
Home equity	45,943	38,318
Other	103,043	69,333
Total	$469,517	$ 404,879
Standby letters of credit	$42,524	$ 10,626

The increase in 2018 is primarily due to the acquisition of First Bank. Commitments to originate credit represent approved commercial, residential real estate and home equity loans that generally are expected to be funded within ninety days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance sheet contract amount of such instrument.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the market risk faced by the Company since December 31, 2017. For information regarding the Company's market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Further, there have been no changes in the Company's internal control over financial reporting during the last fiscal quarter that have materially affected or that are reasonably likely to affect materially the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

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

ITEM 1A. RISK FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock. See the risk factors and "Supervision and Regulation" described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the

				Plans or Programs
April 1, 2018 - April 30, 2018	0	$0.00	0	$ 6,375,000
May 1, 2018 - May 31, 2018	2,588	$36.75	2,588	$ 6,280,000
June 1, 2018 - June 30, 2018	0	$0.00	0	$ 6,280,000
Total	2,588	$0.00	2,588	$ 6,280,000

See heading “Stock Repurchase Program” for more information regarding stock purchases.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit Index that follows the Signature Page and that immediately precedes the exhibits filed.

Exhibit Index to Quarterly Report on Form 10-Q

Exhibit Number	Description and Filing or Incorporation Reference
2.1	Agreement and Plan of Merger by and among First Mid-Illinois Bancshares, Inc., Project Almond Merger Sub LLC and SCB Bancorp, Inc., dated June 12, 2018 (incorporated by reference to Exhibit 2.1 to First Mid-Illinois Bancshares, Inc's current report on Form 8-K/A filed with SEC on June 13, 2018)
3.1	Amendment to Restated Certificate of Incorporation, dated April 26, 2018 (incorporated by reference to Exhibit 3.1 to First Mid-Illinois Bancshares, Inc.'s current report on Form 8-K filed with the SEC on April 26, 2018)
3.2	Restated Certificate of Incorporation, dated April 26, 2018 (incorporated by reference to Exhibit 3.2 to First Mid-Illinois Bancshares, Inc.'s current report on Form 8-K filed with the SEC on April 26, 2018)
10.3	Fifth Amended and Restated Credit Agreement by and between First Mid-Illinois Bancshares, Inc. and The Northern Trust Company, dated as of April 13, 2018 (incorporated by reference to Exhibit 10.1 to First Mid-Illinois Bancshares, Inc.'s current report on Form 8-K filed with the SEC on April 13, 2018)
11.1	Statement re: Computation of Earnings Per Share (Filed herewith on page 11)
31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017, (iii) the Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (iv) the Notes to Consolidated Financial Statements.

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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 MID-ILLINOIS BANCSHARES, INC.
(Registrant)

Date: August 6, 2018
Joseph R. Dively
President and Chief Executive Officer

Matthew K. Smith
Chief Financial Officer

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