

CENTRUE FINANCIAL CORP
Form 10-K
March 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission File Number: 0-28846

Centrue Financial Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-3145350

(I.R.S. Employer Identification number)

122 W. Madison Street, Ottawa, IL 61350

(Address of principal executive offices including zip code)

(815) 431-8400

(Registrant's telephone number, including area code)

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

| Title of Exchange Class | Name of Each Exchange which Registered |
|-------------------------|--|
|-------------------------|--|

| | |
|---------------------------------|---------------------------|
| Common Stock (\$0.01 par value) | The NASDAQ Capital Market |
|---------------------------------|---------------------------|

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 403 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of February 28, 2017, 6,513,694 shares of the Registrant's Common Stock was issued and outstanding. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2016, the last business day of the Registrant's most recently completed second quarter, was \$61,492,150.

As used in this report, the terms "we," "us," "our," "Centrue" and the "Company" mean Centrue Financial Corporation and its subsidiary, unless the context indicates another meaning, and the term "Common Stock" means our common stock, par value \$0.01 per share.

TABLE OF CONTENTS

| | Page |
|---|-----------|
| <u>PART I</u> | |
| <u>Item 1. Business</u> | <u>1</u> |
| <u>Item 1A. Risk Factors</u> | <u>10</u> |
| <u>Item 1B. Unresolved Staff Comments</u> | <u>20</u> |
| <u>Item 2. Properties</u> | <u>20</u> |
| <u>Item 3. Legal Proceedings</u> | <u>21</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>21</u> |
| <u>PART II</u> | |
| <u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>22</u> |
| <u>Item 6. Selected Consolidated Financial Data</u> | <u>23</u> |
| <u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>25</u> |
| <u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>42</u> |
| <u>Item 8. Financial Statements and Supplementary Data</u> | <u>42</u> |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>85</u> |
| <u>Item 9A. Controls and Procedures</u> | <u>85</u> |
| <u>Item 9B. Other Information</u> | <u>85</u> |
| <u>PART III</u> | |
| <u>Item 10. Directors, Executive Officers and Corporate Governance</u> | <u>86</u> |
| <u>Item 11. Executive Compensation</u> | <u>90</u> |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>95</u> |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u> | <u>97</u> |
| <u>Item 14. Principal Accountant Fees and Services</u> | <u>98</u> |
| <u>Part IV</u> | |
| <u>Item 15. Exhibits and Financial Statement Schedules</u> | <u>99</u> |

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Item 1. Business

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this document are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on the current expectations, forecasts, and assumptions of our management and are subject to various risks and uncertainties that could cause our actual results to differ materially from those expressed or implied by the forward-looking statements. Forward-looking statements are sometimes identified by language such as “believe,” “may,” “could,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “exp,” “future,” “likely,” “probably,” “suggest,” “goal,” “potential” and similar expressions and may also include references to plans, strategies, objectives, and anticipated future performance as well as other statements that are not strictly historical in nature. The risks, uncertainties, and other factors that could cause our actual results to differ materially from those expressed or implied in this prospectus include those noted under the caption “Risk Factors.” Readers should carefully review this information as well as the risks and other uncertainties described in other filings we may make with the Securities and Exchange Commission.

Readers are cautioned not to place undue reliance on forward-looking statements. They reflect opinions, assumptions, and estimates only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or circumstances, or otherwise.

Centrue Financial Corporation

The Company is a bank holding company incorporated in Delaware in 1982 for the purpose of becoming a holding company registered under the Bank Holding Company Act of 1956, as amended (the “Act”). The Company is a publicly traded bank holding company with assets of \$978 million, net loans of \$677 million, and equity of \$127 million at December 31, 2016 and is headquartered in Ottawa, Illinois. The Company currently trades on the NASDAQ Capital Market (NASDAQ: CFCB). The Company provides a full range of banking services to individual and corporate customers extending from western and southern suburbs of the Chicago metropolitan area across Central Illinois down to metropolitan St. Louis area.

The Company operates one wholly owned subsidiary; Centrue Bank (“the Bank”). The Company has responsibility for the overall conduct, direction, and performance of the Bank. The Company provides various services, establishes Company-wide policies and procedures, and provides other resources as needed, including capital.

On January 26, 2017, Midland States Bancorp, Inc. (NASDAQ:MSBI) (the “Midland”) and Centrue Financial Corporation

announced that they have entered into a definitive agreement under which Midland will acquire Centrue for estimated total consideration of \$175.1 million, or \$26.75 per share of Centrue common stock. The Company jointly announced with Midland that it is being acquired by and will be merged with and into Midland.

Subsidiary

At December 31, 2016, the Bank had \$971 million in total assets, \$744 million in total deposits, and twenty-four offices (nineteen full-service bank branches, two lending centers and two back-room sales support non-banking facilities in Illinois and one full-service bank branch in Missouri) located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area. The Bank is engaged in commercial and retail banking and offers a broad range of lending, depository, and related financial services, including accepting deposits; commercial and industrial, consumer, and real estate lending and other banking services tailored for consumer, commercial and industrial, and public or governmental customers.

Competition

The Company’s market area is highly competitive with numerous commercial banks, savings and loan associations and credit unions. In addition, financial institutions, based in surrounding communities and in the southern and western metro area of Chicago and the suburban metro area of St. Louis, actively compete for customers within the Company’s

market area. The Company also faces competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds, loan production offices and other providers of financial services.

The Company competes for loans principally through the range and quality of the services it provides and through competitive interest rates and loan fees. The Company believes that its long-standing presence in the communities it serves and personal service philosophy enhance its ability to compete favorably in attracting and retaining individual and business customers. The Company actively solicits deposit-related customers and competes for deposits by offering customers personal attention, professional service and competitive interest rates.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Under the Gramm-Leach-Bliley Act of 1999 (the “GLB Act”), effective March 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act, and future action stemming from the Act, is expected to continue to significantly change the competitive environment in which the Company and the Bank conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Employees

At December 31, 2016, the Company and the Bank had a total of 214 full-time employees and 47 part time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good working relationships with our employees.

SUPERVISION AND REGULATION

General

Financial institutions and their holding companies are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the IDFP, the Board of Governors of the Federal Reserve Board, the Federal Deposit Insurance Corporation (the “FDIC”), the Internal Revenue Service, state taxing authorities, and the Securities and Exchange Commission (the “SEC”). The effect of applicable statutes, regulations and regulatory policies can be significant, and cannot be predicted with a high degree of certainty.

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

The following is a summary of the material elements of the regulatory framework that applies to the Company and the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and the Bank, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material effect on the business of the Company and the Bank.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) became law on July 21, 2010. The Dodd-Frank Act constitutes one of the most significant efforts in recent history to comprehensively overhaul the financial services industry and has affected large and small financial institutions alike. While some of the provisions of the Dodd-Frank Act took effect immediately, many of the provisions have delayed effective dates and their implementation has required the issuance of numerous new regulations.

The Dodd-Frank Act deals with a wide range of regulatory issues including, but not limited to: mandating new regulatory capital requirements that would require certain bank holding companies to be subject to the same regulatory capital requirements as their depository institutions; eliminating (with certain exceptions) trust preferred securities; codifying the Federal Reserve’s Source of Strength doctrine; creating the Consumer Financial Protection Bureau (the “CFPB”) which has the power to exercise broad regulatory, supervisory and enforcement authority concerning both existing and new consumer financial protection laws; permanently increasing federal deposit insurance protection to \$250,000 per depositor; increasing the ratio of reserves to deposits minimum to 1.35%; assessing premiums for deposit insurance coverage on average consolidated total assets less average tangible equity, rather than on a deposit base; authorizing the assessment of examination fees; establishing new standards and

restrictions on the origination of mortgages; permitting financial institutions to pay interest on business checking accounts; limiting interchange fees payable on debit card transactions; and implementing requirements on boards, corporate governance and executive compensation for public companies.

In July 2011, the CFPB took over many of the consumer financial functions that had been assigned to the federal banking agencies and other designated agencies. The CFPB has broad rulemaking authority and there has been considerable uncertainty as to how the CFPB will continue to exercise its regulatory, supervisory, examination and enforcement authority.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The Dodd-Frank Act has had and will have significant and immediate effects on banks and bank holding companies in many areas. It is expected that the continued implementation of the Dodd-Frank Act will increase the cost of doing business in the banking industry.

The Company

General. The Company, as the sole stockholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve Board under the Act. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not do so absent such policy. Under the Act, the Company is subject to periodic examination by the Federal Reserve Board and is required to file with the Federal Reserve Board periodic reports of operations and such additional information as the Federal Reserve Board may require. The Company is also subject to regulation by the IDFPB under the Illinois Bank Holding Company Act, as amended.

Investments and Activities. Under the Act, a bank holding company must obtain Federal Reserve Board approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the other bank or bank holding company (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank; or (iii) merging or consolidating with another bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the Act), the Federal Reserve Board may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the Federal Reserve Board is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws which require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The Act also generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve Board to be “so closely related to banking as to be a proper incident thereto.” Under current regulations of the Federal Reserve Board, the Company is permitted to engage in a variety of banking-related businesses, including the operation of a thrift, consumer finance or equipment leasing business, the operation of a computer service bureau (including software development), and the operation of mortgage banking and brokerage businesses. The Act generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

In November 1999, the Gramm-Leach-Bliley Act “GLB Act” was signed into law. Under the GLB Act, bank holding companies that meet certain standards and elect to become “financial holding companies” are permitted to engage in a wider range of activities than those permitted for bank holding companies, including securities and insurance activities. Specifically, a bank holding company that elects to become a financial holding company may engage in any activity that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determines is (i) financial in nature or incidental thereto, or (ii) complementary to any such financial-in-nature activity, provided that such complementary activity does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. A bank holding company may elect to become a financial holding company only if each of its depository institution subsidiaries is well-capitalized, well-managed, and has a Community Reinvestment Act rating of “satisfactory” or better at their most recent examination.

The GLB Act specifies many activities that are financial in nature, including lending, exchanging, transferring, investing for others, or safeguarding money or securities; underwriting and selling insurance; providing financial, investment or economic advisory services; underwriting, dealing in, or making a market in securities; and those activities currently permitted for bank holding companies that are so closely related to banking or managing or controlling banks, as to be a proper incident thereto.

The GLB Act changed federal laws to facilitate affiliation between banks and entities engaged in securities and insurance activities. The law also established a system of functional regulation under which banking activities, securities activities, and insurance activities conducted by financial holding companies and their subsidiaries and affiliates will be separately regulated by banking, securities, and insurance regulators, respectively. The Company has no current plans to register as a financial holding company.

Federal law also prohibits any person or company from acquiring “control” of a bank or bank holding company without prior notice to the appropriate federal bank regulator. “Control” is defined in certain cases as the acquisition of 10% or more of the outstanding shares of a bank or bank holding company.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Regulatory Capital Requirements. The Federal Reserve Board uses regulatory capital adequacy guidelines in its examination and regulation of bank holding companies. If regulatory capital falls below minimum guideline levels, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non bank businesses.

The following minimum regulatory capital requirements for bank holding companies were in effect as of December 31, 2016: a risk based requirements expressed as percentages of total risk weighted assets, and a leverage requirement expressed as a percentage of total assets. The risk based requirement consists of a minimum ratio of total regulatory capital to total risk weighted assets of 8%, of which at least 6% must be Tier I capital and a new common equity Tier I capital ratio with a minimum of 4.5%.

In July 2013, the federal banking agencies approved a final rule implementing the Basel III regulatory capital reforms and certain changes required by the Dodd-Frank Act (the “Basel III Rule”). As discussed in more detail below, subject to a phase-in period, beginning January 1, 2015, financial institutions transitioned to the Basel III Rule and were required to report results with the first call report of 2015. The Basel III Rule applies to all banking organizations, except for bank holding companies and savings and loan holding companies with consolidated assets of less than \$1.0 billion.

The Basel III Rule also exempts bank holding companies with less than \$15 billion in total consolidated assets as of December 31, 2009, such as the Company, from phasing out trust preferred securities (“TruPS”) and cumulative perpetual preferred stock from Tier 1 capital. Capital instruments that were issued prior to May 19, 2010, by these institutions and that are currently in Tier 1 capital, including TruPS and cumulative perpetual preferred stock, are grandfathered in Tier 1 capital, subject to certain limits. More specifically, consistent with the current requirements, these instruments are limited to 25% of Tier 1 capital elements, excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments have been applied to Tier 1 capital.

In addition, pursuant to its Small Bank Holding Company Policy, which was amended in 2014, the Federal Reserve Board exempts certain bank holding and savings and loan holding companies from the regulatory capital requirements discussed above. The exemption applies only to bank holding companies with less than \$1 billion (formerly \$500 million) in consolidated assets that: (i) are not engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (ii) do not conduct significant off-balance sheet activities (including securitization and asset management or administration) either directly or through a nonbank subsidiary; and (iii) do not have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. The Company qualifies for this exemption and, thus, is required to meet applicable regulatory capital standards on a bank-only basis. However, bank holding companies with assets of less than \$1 billion are subject to various restrictions on debt including requirements that debt is retired within 25 years of being incurred, that the debt to equity ratio is .30 to 1 within 12 years of the incurrence of debt and that dividends generally cannot be paid if the debt to equity ratio exceeds 1 to 1.

Dividends. The Company is organized under the Delaware General Corporation Law (the “DGCL”). The DGCL allows the Company to pay dividends only out of its surplus (as defined and computed in accordance with the provisions of the DGCL) or if the Company has no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

Additionally, the Federal Reserve Board has issued a policy statement with regard to the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company should not pay cash dividends which exceed its net income or which can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. The Federal Reserve Board also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Our ability to declare dividends and pay these dividends to our stockholders will depend on the Company’s receipt of dividends from the Bank, as we have no other source of revenue with which to pay dividends. Prior to August 13, 201,

under Illinois law the Bank could only pay dividends equal to or less than its cumulative net profits then on hand, deducting from the net profits the bank's cumulative losses and bad debts. For many banks that suffered losses as a result of the 2008 recession, including the Bank, the banks have recovered and are generating profits, but the banks may not begin paying dividends until year-to-year cumulative undivided profits exceed the earlier years' losses. The effect of this provision in the Illinois Banking Act is that these otherwise healthy banks must wait many years before they can begin paying dividends again. Effective August 13, 2015 the Illinois Banking Act was amended to address this dividend issue by authorizing a state bank to restate its capital accounts to eliminate a deficit in its undivided profits account so long as prior to the restatement the bank receives the written approval of the Secretary of the IDFPR. The Bank may now, with the permission of the IDFPR and subject to Federal Reserve Board requirements, restate its capital accounts and begin paying dividends again so long as the Bank is profitable.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

THE BANK

Centrue Bank

The Bank is an Illinois-chartered bank, the deposit accounts of which are insured by the FDIC. The Bank is also a member of the Federal Reserve System (“member bank”). As an Illinois-chartered, FDIC-insured member bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the IDFP, as the chartering authority for Illinois banks, the Federal Reserve Board, as the primary federal regulator of member banks, and the FDIC, as administrator of deposit insurance.

Deposit Insurance. The Bank’s deposits are insured up to applicable limitations by a deposit insurance fund administered by the FDIC. As an FDIC insured institution, the Bank is required to pay deposit insurance premium assessments to the deposit insurance fund pursuant to a risk-based assessment system. The Dodd-Frank Act permanently raised the basic limit on deposit insurance coverage from \$100,000 to \$250,000 per depositor. Under the FDIC’s risk based assessment regulations there are four risk categories, and each insured institution is assigned to a risk category based on capital levels and supervisory ratings. Well-capitalized institutions with CAMELS composite ratings of 1 or 2 are placed in Risk Category I while other institutions are placed in Risk Categories II, III or IV depending on their capital levels and CAMELS composite ratings. The assessment rates may be changed by the FDIC as necessary to maintain the insurance fund at the reserve ratio designated by the FDIC. A bank’s initial assessment rate is based upon the risk category to which it is assigned. Adjustments may be made to a bank’s initial assessment rate based certain factors including levels of long-term unsecured debt, levels of secured liabilities above a threshold amount, and, for certain institutions, brokered deposit levels. As required by the Dodd-Frank Act, in February 2011, the FDIC adopted a final rule that redefines its deposit insurance premium assessment base to be an insured depository institution’s average consolidated total assets minus average tangible equity capital, rather than on deposits. In addition, FDIC has revised its deposit insurance rate schedules as a consequence of the changes to the assessment base. On an unadjusted basis, initial base assessment rates now range between 5 basis points in the lowest risk category and 35 basis points for banks in the highest risk category. Due to a decrease in the reserve ratio of the deposit insurance fund, in October 2008, the FDIC established a restoration plan to restore the reserve ratio to at least 1.15%. However, the Dodd-Frank Act raised the minimum reserve ratio to 1.35% and removed the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. The Dodd-Frank Act also requires that the reserve ratio reach 1.35% by September 30, 2020. Effective January 1, 2011, the FDIC set the long term reserve ratio at 2%. The FDIC has been directed to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution (i) has engaged or is engaging in unsafe or unsound practices, (ii) is in an unsafe or unsound condition to continue operations or (iii) has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance, if the institution has no tangible capital. Management of the Company is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

FICO Assessments. FDIC insured institutions are also subject to assessments to cover interest payments due on the outstanding obligations of the Financing Corporation (“FICO”). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance until the final maturity of the outstanding FICO obligations in 2019. FDIC insured institutions will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 2016, the FICO assessment rate for DIF members ranged between approximately 0.0056% and 0.0058% of deposits. During the year ended December 31, 2016 the Bank paid FICO assessments totaling \$0.05 million.

For the first quarter of 2017, the rate established by the FDIC for the FICO assessment 0.0056% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the IDFPR to fund the operations of the IDFPR. The amount of the assessment is calculated based on the institution's total assets, including consolidated subsidiaries, as reported to the IDFPR. During the year ended December 31, 2016, the Bank paid supervisory assessments to the IDFPR totaling \$0.1 million.

Regulatory Capital Requirements. The Bank is required to comply with regulatory capital adequacy standards set by the FDIC. The FDIC may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk. Banks with regulatory capital ratios below the required minimum are subject to certain administrative actions. More than one regulatory capital adequacy standard applies, and all applicable standards must be satisfied for an institution to be considered to be in compliance. There are four basic measures of regulatory capital adequacy: a total risk-based capital measure, a Tier 1 risk-based capital ratio, a Common equity tier 1 capital ratio; and a leverage ratio.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The risk-based framework was adopted to assist in the assessment of regulatory capital adequacy of financial institutions by, (i) making regulatory capital requirements more sensitive to differences in risk profiles among organizations; (ii) introducing off-balance-sheet items into the assessment of regulatory capital adequacy; (iii) reducing the disincentive to holding liquid, low-risk assets; and (iv) achieving greater consistency in evaluation of regulatory capital adequacy of major banking organizations throughout the world. The risk-based guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning assets and off-balance sheet items to different risk categories. An institution's risk-based capital ratios are calculated by dividing its qualifying regulatory capital by its risk-weighted assets.

Qualifying regulatory capital consists of two types of capital components: "core capital elements" (or Tier 1 capital) and "supplementary capital elements" (or Tier 2 capital). Tier 1 capital is generally defined as the sum of core capital elements less goodwill and other intangibles. Core capital elements consist of (i) common shareholders' equity, (ii) noncumulative perpetual preferred stock (subject to certain limitations), and (iii) minority interests in the equity capital accounts of consolidated subsidiaries. Tier 2 capital consists of (i) allowance for loan and lease losses (subject to certain limitations); (ii) perpetual preferred stock which does not qualify as Tier 1 capital (subject to certain conditions); (iii) hybrid capital instruments and mandatory convertible debt securities; (iv) term subordinated debt and intermediate term preferred stock (subject to limitations); and (v) net unrealized holding gains on equity securities. As described above, in July 2013 the federal banking regulators released the Basel III Rule relating to minimum regulatory capital requirements for U.S. banking organizations. The Basel III Rule does not apply to bank holding companies with less than \$1.0 billion in consolidated assets, such as the Company; however, many of the requirements apply to the Bank. Namely, the Basel III Rule modifies standards for the risk-weighted assets calculation, sets new minimum regulatory capital requirements and refines capital quality through various eligibility restrictions. The Basel III Rule became effective as applied to the Bank on January 1, 2015, with a phase in period of the requirements that generally extends from January 1, 2015 through January 1, 2019.

Under current regulatory capital adequacy standards and the Basel III Rule, the Bank must meet a minimum ratio of qualifying total regulatory capital to risk-weighted assets of 8%. Of that ratio, at least half, or 4%, was required to be in the form of Tier 1 capital. The Basel III Rule increases the required minimum Tier 1 capital ratio from 4% to 6%. The Basel III Rule also increased the minimum Tier 1 leverage ratio from 3% to 4%. The Basel III Rule also established a Common Equity Tier 1 ("CET1") capital ratio of 4.5% and phases in a capital conservation buffer equivalent to 2.5% of risk-weighted assets.

The capital conservation buffer as fully implemented will require a 2.5% buffer above these required minimum regulatory capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer may face restrictions on capital distributions or discretionary bonus payments to executive officers. The Basel III rule also revises the methodology for calculating risk-weighted assets for certain types of assets and exposures. In addition, the Basel III rule provides that smaller banking organizations could make a one-time election to opt out of including most elements of accumulated other comprehensive income in regulatory capital. This opt-out excludes from regulatory capital both unrealized gains and losses on available-for-sale debt securities and accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit post-retirement plans. The Bank made this opt-out election and will exclude the change in unrealized gains and losses in these items from its regulatory capital.

Prompt Corrective Regulatory Action. The Federal Reserve Board is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a bank is considered "well capitalized" if its risk-based capital ratio is at least 10%, its Tier 1 risk-based capital ratio is at least 6%, its leverage ratio is at least 5%, and the bank is not subject to any written agreement, order, or directive by the FDIC.

A bank generally is considered "adequately capitalized" if it does not meet each of the standards for well-capitalized institutions, and its risk-based capital ratio is at least 8%, its Tier 1 risk-based capital ratio is at least 4%, and its leverage ratio is at least 4% (or 3% if the institution receives the highest rating under the Uniform Financial Institution

Rating System). A bank that has a risk-based capital ratio less than 8%, or a Tier 1 risk-based capital ratio less than 4%, or a leverage ratio less than 4% (3% or less for institutions with the highest rating under the Uniform Financial Institution Rating System) is considered to be “undercapitalized.” A bank that has a risk-based capital ratio less than 6%, or a Tier 1 capital ratio less than 3%, or a leverage ratio less than 3% is considered to be “significantly undercapitalized,” and a bank is considered “critically undercapitalized” if its ratio of tangible equity to total assets is equal to or less than 2%.

The Basel III Rule revised the current prompt corrective action requirements effective January 1, 2015 by:

- Introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being a minimum of 6.5% for well-capitalized status;
- Increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized.

The Basel III Rule did not change the total risk-based capital requirement for any prompt corrective action category. Subject to a narrow exception, the FDIC is required to appoint a receiver or conservator for a bank that is “critically undercapitalized.” In addition, a capital restoration plan must be filed with the FDIC within 45 days of the date a bank receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Compliance with the plan must be guaranteed by each company that controls a bank that submits such a plan, up to an amount equal to 5% of the bank’s assets at the time it was notified regarding its deficient capital status. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions, and expansion. The FDIC could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Regulatory Agreements. On December 18, 2009, the Bank entered into a written agreement (the “Agreement”) with the Federal Reserve-Chicago and the IDFPR. The Agreement required the Bank to make certain commitments related to credit risk management practices; improving loan underwriting and loan administration; improving asset quality by enhancing the Bank’s position on problem loans through repayment, additional collateral or other means; reviewing and revising as necessary the Bank’s allowance for loan and lease losses policy; maintaining sufficient capital at the Bank, implementing an earnings plan and comprehensive budget to improve and sustain the Bank’s earnings; and improving the Bank’s liquidity position and funds management practices. The Bank complied with its obligations under the Agreement, and the Agreement was terminated on February 16, 2016.

Dividends. Under the Illinois Banking Act, Illinois-chartered banks may not pay dividends in excess of their net profits then on hand, after deducting losses and bad debts. The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Bank. Generally, a member bank may pay dividends out of its undivided profits, in such amounts and at such times as the bank’s board of directors deems prudent. Without prior Federal Reserve Board approval, however, a state member bank may not pay dividends in any calendar year which, in the aggregate, exceed such bank’s calendar year-to-date net income plus such bank’s retained net income for the two preceding calendar years, less any required transfers to additional paid-in capital or to a fund for the retirement of preferred stock.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate regulatory capital pursuant to applicable regulatory capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, notwithstanding the availability of funds for dividends, the Federal Reserve Board may prohibit the payment of any dividends by the Bank if the Federal Reserve Board determines such payment would constitute an unsafe or unsound practice.

The Illinois Banking Act was amended August 13, 2015 to address the dividend restriction by authorizing a state bank to restate its capital accounts to eliminate a deficit in its undivided profits account so long as prior to the restatement the bank receives the written approval of the IDFPR. The Bank may now, with the permission of the IDFPR and subject to Federal Reserve Board requirements, restate its capital accounts and begin paying dividends again so long as the Bank is profitable.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company, on investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company, to principal stockholders of the Company, and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming a director or officer of the Company or a principal stockholder of the Company may obtain credit from the banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. Illinois banks, such as the Bank, have the authority under Illinois law to establish branches anywhere in the State of Illinois, subject to receipt of all required regulatory approvals. Additionally, the Bank has authority under Missouri law to establish branches anywhere in the State of Missouri, subject to receipt of all required regulatory approvals.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Riegle-Neal Act”), both state and national banks were allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) was allowed by the Riegle-Neal Act only if specifically authorized by state law. However, as a result of the Dodd-Frank Act, interstate branching authority has been expanded. A state or national bank may open a de novo branch in another state if the law of the state where the branch is to be located would permit a state bank chartered by that state to open the branch.

State Bank Activities. Under federal law and FDIC regulations, FDIC insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

The GLB Act also authorizes insured state banks to engage in financial activities, through subsidiaries, similar to the activities permitted for financial holding companies. If a state bank wants to establish a subsidiary engaged in financial activities, it must meet certain criteria, including that it and all of its affiliated insured depository institutions are well-capitalized and have a Community Reinvestment Act rating of at least “satisfactory” and that it is well-managed. There are capital deduction and financial statement requirements and financial and operational safeguards that apply to subsidiaries engaged in financial activities. Such a subsidiary is considered to be an affiliate of the bank and there are limitations on certain transactions between a bank and a subsidiary engaged in financial activities of the same type that apply to transactions with a bank’s holding company and its subsidiaries.

Reserve Requirement. Federal Reserve Board regulations, as presently in effect, require depository institutions including the Bank to maintain cash reserves against their net transaction accounts (primarily NOW and regular checking accounts). Federal Reserve Banks are authorized to pay interest on such reserves.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the “JOBS Act”), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.0 billion during its most recently completed fiscal year qualifies as an “emerging growth company. The Company qualifies as and has elected to be treated as an emerging growth company under the JOBS Act.

An “emerging growth company” may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as “say-on-pay” votes) or executive compensation payable in connection with a merger (more frequently referred to as “say-on-golden parachute” votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company’s internal control over financial reporting, and can provide scaled disclosure regarding executive compensation. The Company will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a “smaller reporting company” under Securities and Exchange Commission regulations (generally less than \$75 million of voting and non-voting equity held by non-affiliates). Finally, an emerging growth company may elect to comply with new or

amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. The Company has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of \$1.0 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a “large accelerated filer” under Securities and Exchange Commission regulations (generally, at least \$700 million of voting and non-voting equity held by non-affiliates).

EXECUTIVE OFFICERS

8

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the board of directors. In addition to the information provided in the 2017 Proxy Statement, the names and ages of the executive officers of the Company, as well as the offices of the Company and the Subsidiary held by these officers on that date, and principal occupations for the past five years are set forth below. Kurt R. Stevenson, 50, is the President & Chief Executive Officer and Director of Centrue Financial Corporation and the Bank, a position he has held since 2011. He had previously served as the Company's Senior Executive Vice President & Chief Financial Officer since 2003.

Daniel R. Kadolph, 54, is the Executive Vice President & Chief Financial Officer of Centrue Financial Corporation and the Bank, a position he has held since January 2012. Prior to that he served as a consultant to various banks since 2008.

John E. Christy, 57, is the Bank's Executive Vice President & Chief Lending Officer, a position he has held since January 2014. He joined the Bank in January 2014 and briefly served as VP/Senior Commercial Relationship Manager. Prior to joining the Bank, he worked at Salin Bank as its EVP/Director of Commercial Banking & TM and at PNC Financial Services as its SVP.

Kenneth A. Jones, 53, is the Bank's Executive Vice President & Chief Credit Officer. Mr. Jones joined the Bank in October 2000 and, prior to his current position, he served in the role of Commercial Collector.

Gene A. Guidici, 54, is the Market President for the Bank's Kankakee, Bradley, Bourbonnais, Herscher, Manteno, Momence and Orland Park locations, a position held since 2012. He joined the Bank as its SVP/Senior Commercial Relationship Manager in November of 2011. He had previously worked at United Central Bank as Vice President & Special Assets Manager and at Amcore Bank as Senior Vice President & Division Manager.

Everett J. Solon, 64, is the Market President for the Bank's Streator, Dwight, Ottawa, Princeton and Peru locations, a position held since 2003.

Diane F. Leto, 55, is the Bank's Executive Vice President & Head of Operations. She had previously served as the Bank's Executive Vice President & Chief Risk Officer through September 2011 and Head of Operations through year-end 2008.

Heather M. Hammitt, 42, is the Bank's Executive Vice President & Head of Human Resources & Corporate Communications. Ms. Hammitt joined the Bank in March of 1998 and has served in various positions of management in the human resources department during that time.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

Risks Related to Our Business

We are exposed to higher credit risk by commercial real estate, commercial and industrial lending, real estate construction and farm land.

Commercial real estate, commercial and industrial, and real estate construction lending usually involve higher credit risks than single-family residential lending. As of December 31, 2016, the following loan types accounted for the stated percentages of our total loan portfolio: commercial real estate - 64.06%, commercial and industrial - 11.71%, real estate construction - 4.20% and farm land - 4.30%.

Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial and industrial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business.

Risk of loss on a real estate construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent take-out financing and the builder's ability to ultimately sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Commercial real estate loans, commercial and industrial loans, and real estate construction loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

We may not be able to retain or develop a strong core deposit base or other low-cost funding sources.

We depend on checking, savings and money market deposit account balances and other forms of customer deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to retain and grow a strong deposit base. If we are unable to continue to attract and retain core deposits, to obtain third party financing on favorable terms, or to have access to interbank or other liquidity sources, our cost of funds will increase, adversely affecting the ability to generate the funds necessary for lending operations, reducing net interest margin and negatively affecting results of operations. We derive liquidity through core deposit growth, maturity of money market investments, and maturity and sale of investment securities and loans. Additionally, we have access to financial market borrowing sources on an unsecured and a collateralized basis for both short-term and long-term purposes including, but not limited to, the Federal Reserve Board and Federal Home Loan Banks, of which we are a member. If these funding sources are not sufficient or available, we may have to acquire funds through higher-cost sources.

We are subject to losses due to the errors or fraudulent behavior of employees or third parties.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially adversely affected if an individual causes a significant operational breakdown or failure, either as a result of human error or

where an individual purposefully sabotages or fraudulently manipulates our operations or systems or if one of our third-party service providers experiences an operational breakdown or failure. When we originate loans, we rely upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal and title information, if applicable, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation. Any of these occurrences could result in a diminished ability of us to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could negatively impact our business, financial condition and results of operations.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

We have a deferred tax asset that may not be fully realized in the future.

Our net deferred tax asset totaled \$35.0 million as of December 31, 2016. The ultimate realization of a deferred tax asset is dependent upon the generation of future taxable income during the periods that the related net operating losses and certain recognized built-in losses and net unrealized built-in losses, if any (collectively, “pre-change losses”), may be utilized and is also subject to the rules of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), described below. If our estimates and assumptions about future taxable income and prudent and feasible tax planning strategies are not accurate, the value of our deferred tax asset may not be recoverable and our cash flow available to fund operations could be adversely affected. It is possible that we could ultimately not be able to use or could lose a portion of the net deferred tax asset.

Our ability to realize the benefit of our deferred tax assets may be materially impaired if we experience an ownership change under Sections 382 of the Code.

Our ability to use our deferred tax assets to offset future taxable income will be limited if we experience an “ownership change” as defined in Section 382 of the Code. Due to the complexity of Section 382, it is difficult to conclude with certainty at any given point in time whether an “ownership change” has occurred. A Company that experiences an ownership change will generally be subject to an annual limitation on the use of its pre-change losses equal to the equity value of the Company immediately before the ownership change (in some cases, reduced by certain capital contributions received in the two years preceding the ownership change), multiplied by the applicable “long-term tax-exempt rate” (a rate that changes monthly and was 2.09% for ownership changes occurring in March 2017). While our certificate of incorporation includes provisions intended to prohibit transactions that would result in an ownership change, an ownership change nevertheless could occur in the future, which likely would have a material adverse effect on our results of operations, financial condition and stockholder value. Any change in applicable law may also result in an ownership change. Our tax preservation provisions may also limit our ability to raise capital by selling newly issued shares of our common stock.

We depend on our key officers and employees to continue the implementation of our business strategy and could be harmed by the loss of their services. Management’s ability to retain key officers and employees may change.

We believe that our business strategy and future success will depend in large part on the skills of our current senior management team. We believe our senior management team possesses valuable knowledge about and experience in the banking industry and that their knowledge and relationships would be very difficult to replace. Two members of our senior management team have entered into employment agreements with us, they may not complete the term of their employment agreements or renew them upon expiration. Our success also depends on the experience of our branch managers and lending officers and on their relationships with the customers and communities they serve. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel, particularly in respect of the implementation of our business strategy, which may require the recruitment of new personnel in new or expanded business areas. There may be only a limited number of persons with the requisite skills to serve in these positions in the geographic markets we serve, and it may be increasingly difficult for us to hire personnel over time. The loss of service of one or more of our key officers and employees, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition or operating results and the value of our common stock.

Our allowance for losses on loans may not be adequate to cover probable incurred losses.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance for loan losses when we believe that repayment of principal is unlikely. Any material declines in the creditworthiness of our customers, real estate market conditions and values, general economic conditions or changes in regulatory policies would likely result in a higher probability that principal on some loans will not be repaid and require us to increase our allowance for loan losses. Bank regulators also periodically review our allowance for loan losses and may require an increase in the provision for loan losses or further loan charge-offs. A material increase in the allowance for loan losses would adversely affect our results of operations and our capital.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Centrue Bank's business is subject to liquidity risk, and changes in its source of funds may adversely affect our performance and financial condition by increasing its cost of funds.

The Bank's ability to make loans and fund expenses is directly related to its ability to secure funding. Retail and commercial deposits and core deposits are the Bank's primary source of liquidity. The Bank also relies on cash from payments received from loans and investments, as well as advances from the FHLB of Chicago as a funding source. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans and payment of operating expenses. Core deposits represent a significant source of low-cost funds. Alternative funding sources such as large balance time deposits or borrowings are a comparatively higher-cost source of funds. Liquidity risk arises from the inability to meet obligations when they come due or to manage unplanned decreases or changes in funding sources. Significant fluctuations in lower cost funding vehicles would cause the Bank to pursue higher cost funding which would adversely affect our financial condition and results of operations.

The Company's liquidity is largely dependent upon our ability to receive dividends from the Bank, which accounts for substantially all our revenue, could affect our ability to pay dividends, and we may be unable to generate liquidity from other sources.

We are a separate and distinct legal entity from our bank subsidiary. We historically received dividends from the Bank, which we use as the principal source of funds to pay our expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. Such limits are also tied to the earnings of the Bank. \$2.4 million of the \$76.0 million capital raised on March 31, 2015 was retained by the Company for the Company's use. These retained funds are believed to be sufficient to meet working capital obligations of the Company in the short term, but over time if the Company is unable to receive dividends from the Bank the Company will need an alternative source of working capital funding.

Increases in our level of non-performing assets would have an adverse effect on our financial condition and results of operations.

If loans that are currently performing become non-performing, we may need to continue to increase our allowance for loan losses if additional losses are anticipated which would have an adverse impact on our financial condition and results of operations. The increased time and expense associated with the work out of non-performing assets and potential non-performing assets also could adversely affect our operations.

Maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on the ability to adapt products and services to evolving industry and regulatory standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and non-interest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or development in technology or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases.

Deterioration in the real estate markets and economic conditions could lead to additional losses, which could have a material negative effect on our financial condition and results of operations.

Our success depends on general and local economic conditions, and real estate and business markets in which we do business. The commercial and residential real estate markets experienced weakness during the recent economic downturn. Any future declines in real estate values may reduce the value of collateral securing loans and impact the customer's ability to borrow or repay. Increases in delinquency levels or declines in real estate values could have a material negative effect on our business and results of operations.

While we attempt to manage the risk from changes in market interest rates, interest rate risk management techniques are not exact. In addition, we may not be able to economically hedge our interest rate risk. A rapid or substantial increase or decrease in interest rates could adversely affect our net interest income and results of operations.

Our earnings and cash flows depend to a great extent upon the level of our net interest income. The amount of interest income is dependent on many factors, including the volume of earning assets, the general level of interest rates, the dynamics of changes in interest rates and the level of non-performing loans. The cost of funds varies with the amount of funds required to support earning assets, the rates paid to attract and hold deposits, rates paid on borrowed funds and the levels of non-interest-bearing demand deposits and equity capital.

We are unable to predict changes in market interest rates, which are affected by many factors beyond our control including inflation, recession, unemployment, money supply, domestic and international events, changes in the United States and other financial markets and policies of various governmental and regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Net interest income is affected by the level and direction of interest rates, credit spreads,

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

client loan and deposit preferences and other factors. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest earning assets, loan origination volume, loan and mortgage-backed securities portfolios, and our overall results.

We attempt to manage our risk from changes in market interest rates through asset/liability management by adjusting the rates, maturity and balances of the different types of interest-earning assets and interest bearing liabilities. Interest rate risk management techniques are not precise and we may not be able to successfully manage our interest rate risk. As a result, a rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operations.

Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs and risks associated with the ownership of real property, which could have an adverse effect on our business and results of operations.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans, in which case we are exposed to the risks inherent in the ownership of real estate. The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including general or local economic conditions; environmental cleanup liabilities; interest rates; real estate taxes; supply and demand for rental units; occupancy rates for rental units and government regulation and fiscal policies. Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may also adversely affect our operating expenses.

An interruption in or breach in security of our information systems may result in a loss of customer business.

We rely heavily on communications and information systems to conduct our business. Any failure or interruptions or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposits, servicing, or loan origination systems. The occurrence of any failures, interruptions or security breaches of information systems used to process customer transactions could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition, results of operations and cash flows.

Additionally, we outsource portions of our data processing to third parties. If our third party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations. Furthermore, breaches of such third party's technology may also cause reimbursable loss to our consumer and business customers, through no fault of our own.

Although management regularly reviews and updates our internal controls, disclosure controls and procedures, any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our regional concentration makes us particularly at risk for changes in economic conditions in our primary market. Economic conditions in Illinois, Missouri, and the Midwest affect our business, financial condition, results of operations, and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of non-performing assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects Illinois or existing or prospective borrowers or property values in Illinois may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could harm our liquidity, results of operations and financial condition.

When we sell 1-4 family residential real estate loans we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. While we sell mortgage loans with no recourse, our whole loan sale agreements require us to repurchase or substitute mortgage loans in the event we breach any of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud. If the level of repurchase and indemnity activity becomes material, our liquidity, results of operations and financial condition could be materially and adversely affected.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Certain provisions in our Certificate of Incorporation limit our likelihood of being acquired in a manner not approved by the Board.

Our certificate of incorporation contains provisions intended to protect certain tax attributes of the Company. Unless approved by the board of directors in accordance with the procedures set forth in the certificate of incorporation and subject to certain exceptions for permitted transfers, any attempted transfer of the Company's common stock is prohibited and void to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), either (i) any person or group of persons will own 4.95% or more of the outstanding shares of common stock of the Company or (ii) the ownership interest in the Company of any of its existing 5% Stockholders will be increased. The existence of the tax preservation provisions may make it more difficult, delay, discourage, prevent or make it more costly to acquire us or affect a change-in-control that is not approved by the board of directors. This, in turn, could prevent our stockholders from recognizing a gain in the event that a favorable offer is extended and could materially and adversely affect the market price of our common stock.

Changes in the valuation of our securities portfolio may impact our profits.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for other-than-temporary impairment on a quarterly basis, with more frequent evaluation for selected issues. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. The declines in market value could result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

Our use of appraisals in deciding whether to make a loan secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property, we generally require an appraisal. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations, and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting, and reputation could be negatively affected if we rely on materially misleading, false, inaccurate, or fraudulent information.

As a community bank, our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers, and caring about our customers and associates. If our reputation is negatively

affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Further, negative public opinion can expose us to litigation and regulatory action as we seek to implement our growth strategy.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, cash flows, liquidity and results of operations could be materially and adversely affected.

Risks Related to the Ownership of our Common Stock

The completion of our pending merger with Midland States Bancorp, Inc. is dependent on a number of factors beyond our control.

The success of our pending merger with Midland States, whereby Centru Financial Corporation would be merged with Midland States Bancorp., Inc. and Centru Bank would be merged with Midland States Bank, is subject to a number of uncertain factors, including, but not limited to:

obtaining the requisite regulatory approvals in order to consummate the transaction. Midland States Bancorp, Inc. must obtain approvals from the Federal Reserve Bank of St. Louis and the Illinois Department of Financial and Professional Regulation. Other approvals, waivers or consents from regulators may also be required. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain approval or delay their receipt. These regulators may impose conditions on the completion of the transaction. It is a condition to each company's obligation to complete the merger that the requisite regulatory approvals be obtained without the imposition of any condition or restriction that would reasonably be expected to have a material adverse effect on, or materially and adversely affect the economic benefits to be realized by us (as the surviving corporation of the merger) and its subsidiaries, taken as a whole, after giving effect to the merger; and

•obtaining the requisite approval from the shareholders of Centru Financial Corporation;

We and Midland States have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on the ability to successfully combine and integrate the businesses of our Company into Midland States. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key Centru Bank employees could adversely affect our ability to successfully conduct our business in the markets in which we now operate, which could have an adverse effect on our financial results and the value of our common stock. If we experience difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause us and/or Midland States to lose customers or cause customers to close their accounts with us and/or Midland States and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. In addition, the actual cost savings of the merger could be less than anticipated.

We will incur significant transaction and merger-related costs in connection with the Midland States merger.

We expect to continue to incur a number of non-recurring costs associated with completing the Midland States merger. These fees and costs have been, and will continue to be, substantial. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in connection with the Midland States merger.

An active, liquid and orderly trading market for our common stock may not develop and the stock price may be volatile.

Since our common stock is not widely traded, its market value could be subject to wide fluctuations in response to various risk factors including: changes in laws or regulations applicable to our industry, products or services; price and volume fluctuations in the overall stock market; volatility in the market value and trading volume of companies in our industry or companies that investors consider comparable; share price and volume fluctuations attributable to inconsistent trading volume levels of our shares; sales of our common stock by us or by our stockholders, including

sales as contractual lock-ups expire; litigation involving us or the financial services industry generally; global economic and political changes; competitive activities and loss of customers; catastrophic events; and general economic and market conditions.

The cost of additional finance and accounting systems, procedures and controls in order to satisfy our public company reporting requirements increases our expenses.

The obligations of being a public company, include substantial public reporting obligations, which require significant expenditures and place additional demands on our management team. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a stand-alone public company.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

However, the measures we take may not be sufficient to satisfy our obligations as a public company. Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we will file with the Securities and Exchange Commission. Any failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and stock price. In addition, we may need to hire additional compliance, accounting and financial staff with appropriate public company experience and technical knowledge, and we may not be able to do so in a timely fashion. These obligations will increase our operating expenses and could divert our management's attention from our operations.

Our stock-based benefit plans increase our expenses and negatively impact our results of operations.

Our stock-based benefit plans increase our annual compensation and benefit expenses related to the stock options and stock awards granted to participants under a stock-based benefit plan(s). The actual amount of these new stock-related compensation and benefit expenses depends on the number of options and stock awards actually granted, the fair market value of our stock or options on the date of grant, the vesting period, and other factors which we cannot predict at this time.

We recognize expense for our employee stock ownership plan when shares are committed to be released to participants' accounts, and we recognize expenses for restricted stock awards and stock options over the vesting period of awards made to recipients. Actual expenses depends on the price of our common stock.

The implementation of stock-based benefit plans may dilute your ownership interest. Historically, stockholders have approved these stock-based benefit plans.

Our stock-based benefit plans will dilute the ownership interest in our outstanding shares to the extent newly issued shares are used for the stock-based benefits. Although the implementation of new stock-based benefit plans would be subject to stockholder approval, historically stock-based benefit plans adopted by financial institutions and their holding companies have been approved by stockholders.

"Anti-takeover" provisions and the regulations to which we are subject may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to our stockholders.

Anti-takeover provisions in Delaware law and our certificate of incorporation and bylaws, as well as regulatory approvals that would be required under federal law, could make it more difficult for a third party to take control of us and may prevent stockholders from receiving a premium for their shares of our common stock. These provisions could adversely affect the market value of our common stock and could reduce the amount that stockholders might get if we are sold.

Our certificate of incorporation provides for, among other things:

A classified board of directors so that no more than one-third of the directors stand for election in any year;

Limitations on the ability of stockholders to call a special meeting of stockholders;

The approval by a super-majority of outstanding shares to approve certain change of control transactions and amend certain provisions of the certificate of incorporation and by-laws; and

The tax preservation provisions of the certificate of incorporation.

Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. We believe that these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board and by providing our board with more time to assess any acquisition proposal. However, these provisions apply even if the offer may be determined to be beneficial by some stockholders and could delay or prevent an acquisition that our board determines is not in the best interest of our stockholders.

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Federal Savings and Loan Holding Company Act, the Bank Holding Company Act of 1956 and the Change in Bank Control Act. These laws could delay or prevent an acquisition.

A small number of institutional investors, including a stockholder affiliated with one of our directors, owns a significant percentage of our common stock and may vote their shares in a manner that you may consider inconsistent with your best interest or the best interest of our stockholders as a whole.

Capital Z Partners III, L.P. (“Capital Z”), which is affiliated with one of our directors, currently beneficially owns, in the aggregate, approximately 23.55% of our outstanding common stock. As a result, Capital Z, in its capacity as a stockholder, will have the ability to vote a significant percentage of our outstanding common stock on all matters put to a vote of our stockholders, including the election of our board of directors and certain other significant corporate transactions, such as a merger or acquisition transaction.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

On any such matter, the interests of Capital Z may not coincide with the interests of the other holders of our common stock and any such difference in interests may result in Capital Z voting its shares in a manner inconsistent with the interest of other stockholders of the Company. It is also possible that Capital Z may sell or otherwise dispose of all or a significant portion of the remaining shares it holds which could adversely affect the market price of our common stock and, accordingly the value of your investment in us may decrease. In addition to Capital Z, two other investment funds that acquired shares of our common stock in our recapitalization own, in the aggregate, approximately 19.54% of our outstanding common stock. The interests of these stockholders may not coincide with the interests of the other holders of our common stock and these holders may vote their shares in a manner inconsistent with the interest of other stockholders of the Company. These stockholders could also sell or otherwise dispose of all or a significant portion of the shares they hold which could adversely affect the market price of our common stock and, accordingly the value of your investment in us may decrease. Capital Z, FJ Capital Management, LLC, and Stieven Capital Advisors, L.P. have made passivity commitments to the Federal Reserve Board with regard to their ownership interest in the Company.

Risks Related to Our Industry

Our business may be adversely affected by the slow economic recovery, current conditions in the financial markets, the real estate market and economic conditions generally.

The slow economic recovery has continued to result in decreased lending by some financial institutions to their customers and to each other. This has continued to result in a lack of customer confidence, increased market volatility and a widespread reduction in general business activity. Competition among financial institutions for deposits and loans continues to be high, and access to deposits or borrowed funds remains lower than average.

The soundness of other financial institutions could materially and adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Transactions with other financial institutions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk is likely to be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any losses resulting from such defaults by us, our counterparties or our clients could materially and adversely affect our results of operations.

Competition in the financial services industry is intense and could result in losing business or reducing margins.

We operate in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes, and continued consolidation. We face aggressive competition from other lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures.

Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct business. As a result of these various sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition, results of operations and cash flows.

Risks Related to Recent Market, Legislative and Regulatory Events

We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

We and the Bank are subject to extensive regulation, supervision, and legal requirements that govern almost all aspects of our operations. These laws and regulations, among other matters, prescribe minimum regulatory capital requirements, impose limitations on the business activities in which we can engage, limit the dividends or distributions that the Bank can pay to us, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles. Changes to statutes, regulations, or regulatory policies, including interpretation or implementation of statutes, regulations, or policies, could affect us adversely, including limiting the types of financial services and products we may offer and/or increasing the ability of non-banks to offer competing financial services and products. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

Federal banking agencies, including the Federal Reserve Board and the IDFP, periodically conduct examinations and inspections of our business, including compliance with laws and regulations. If, as a result of an examination, a federal or state banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we or the Bank or its management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our or the Bank’s capital, to restrict our growth, to assess civil monetary penalties against us, our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank’s deposit insurance.

Expansion plans may require regulatory approvals, and failure to obtain them may restrict our growth.

We must generally receive federal regulatory approval before we can acquire an institution or business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on the competition, our financial condition, and our future prospects. The regulators also review current and projected regulatory capital ratios and levels, the competence, experience, and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution’s record of compliance under the Community Reinvestment Act (“CRA”)), the effectiveness of the acquiring institution in combating money laundering activities, and the existence of any outstanding enforcement actions. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. The failure to obtain required regulatory approvals may impact our business plans and restrict our growth.

Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the USA Freedom Act of 2015, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Treasury Department to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, U.S. Drug Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the U.S. Treasury Department’s Office of Foreign Assets Control. In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to the development of our anti-money laundering program, adopting enhanced policies and procedures and implementing a robust automated anti-money laundering software solution. If our policies,

procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plans.

We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The Dodd-Frank Act and Basel III Capital Rules will increase regulatory capital requirements

The Dodd-Frank Act requires the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and certain bank and savings and loan holding companies. In July 2013, the federal banking agencies published the Basel III Capital Rules that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Bank. As a small bank holding company (i.e., one with less than \$1.0 billion in total assets and meeting certain other criteria), the Basel III Capital Rules do not apply to the Company.

The Basel III Capital Rules became effective as applied to the Bank on January 1, 2015, with a phase in period that generally extends from January 1, 2015 through January 1, 2019. Since the effective date of Basel III the Bank has not experienced any material impact involving the new rules. Subsequent potential rules adjustment by the regulatory governing bodies could still impact the Company or the Bank when they become effective. In 2015, the Bank elected to opt-out of including the impact of certain unrealized capital gains and losses in its calculation of regulatory capital. The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. The resultant changes in interest rates can also materially decrease the value of certain financial assets we hold, such as debt securities. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2016, the Company operated twenty-four offices (nineteen full-service bank branches, two lending centers, two back-room sales support nonbanking facilities in Illinois and one full-service bank branch in Missouri). The principal offices of the Company are located in Ottawa, Illinois. All of the Company's offices are owned by the Bank and are not subject to any mortgage or material encumbrance, with the exception of four offices that are leased: one is located in LaSalle County in Illinois, one in Cook County in Illinois, one in Kane County in Illinois and one in St. Louis County in Missouri. The Company believes that its current facilities are adequate for its existing business. The net book value of our owned locations and equipment is \$16.4 million in the aggregate.

| Location | Leased or Owned | Year Acquired or Leased |
|----------|-----------------|-------------------------|
|----------|-----------------|-------------------------|

Principal Office:

| | | |
|---------------------------------|-------|------|
| 122 W. Madison St., Ottawa, IL* | Owned | 1991 |
|---------------------------------|-------|------|

Full-service bank branches:

| | | |
|--------------------------------------|--------|------|
| 680 S. Main St., Bourbonnais, IL | Owned | 2006 |
| 980 N. Kinzie Ave., Bradley, IL | Owned | 2006 |
| 180 N. Front St., Coal City, IL | Owned | 2006 |
| 1275 E. Division St., Diamond, IL | Owned | 2006 |
| 302 W. Mazon Ave., Dwight, IL | Owned | 2006 |
| 654 N. Park Rd., Herscher, IL | Owned | 2006 |
| 310 S. Schuyler Ave., Kankakee, IL | Owned | 2006 |
| 310 Section Line Rd., Manteno, IL | Owned | 2006 |
| 200 W. Washington St., Momence, IL | Owned | 2006 |
| 721 Columbus St., Ottawa, IL | Owned | 2006 |
| 400 Etna Rd., Ottawa, IL | Owned | 1988 |
| 1311 Shooting Park Rd., Peru, IL | Leased | 1995 |
| 15 W. South St., Plano, IL | Owned | 1995 |
| 601 S. Main St., Princeton, IL | Owned | 1996 |
| 1839 N. Main St., Princeton, IL | Owned | 1996 |
| 202 Indian Springs Dr., Sandwich, IL | Owned | 1984 |
| 201 E. Main St., Streator, IL | Owned | 1969 |
| 24 Danny Dr., Streator, IL | Owned | 1987 |
| 208 E. Veterans Pkwy., Yorkville, IL | Owned | 2003 |
| 7700 Bonhomme Ave., St. Louis, MO | Leased | 2007 |

Lending Centers:

| | | |
|--------------------------------------|--------|------|
| 8 E. Galena Blvd., Aurora, IL | Leased | 2013 |
| 13500 S. Circle Dr., Orland Park, IL | Leased | 2015 |

Sales Support Non-Banking Facilities:

| | | |
|--------------------------------|-------|------|
| 122 W. Madison St., Ottawa, IL | Owned | 1991 |
| 200 E. Main St., Streator, IL | Owned | 1990 |

*Principal Office and Sales Support Non-Banking Facility.

CENTRUE FINANCIAL CORPORATION

PART I

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| Affiliate The Company | Markets Served | Property/Type Location |
|-----------------------------|--|--|
| | | Administrative Office: Ottawa, IL |
| Centrue Bank | Bureau, Clinton, Cook, DeKalb, Grundy, Kane, Kankakee, Kendall, LaSalle, Livingston, St. Clair and Will Counties in Illinois City and County of St. Louis in Missouri | Main Office: Streator, IL Twenty full-service banking offices, two lending centers and two non-banking offices located in markets served. |

In addition to the banking locations listed above, the Bank owns eighteen automated teller machines, most of which are housed within banking offices.

At December 31, 2016 the properties and equipment of the Company had an aggregate net book value of approximately \$16.4 million.

Item 3. Legal Proceedings

In the normal course of business the Company may be involved in various legal proceedings from time to time. The Company does not believe it is currently involved in any claim or action the ultimate disposition of which would have a material adverse affect on the Company's financial statements.

Litigation relating to the merger

Centrue, Midland, Merger Subsidiary and the individual members of the Centrue board of directors have been named as defendants in a putative class action lawsuit filed by an alleged shareholder of Centrue in the Circuit Court of LaSalle County, Illinois: Rader v. Centrue Financial Corporation, et al., Case No. 17L16 (filed February 3, 2017). The complaint alleges, among other things, that the directors of Centrue breached their fiduciary duties in connection with entering into the merger agreement and that Centrue, Midland and Merger Subsidiary aided and abetted those alleged fiduciary breaches. Plaintiffs claim, among other things, that Centrue's board of directors failed to ensure that Centrue's shareholders would receive maximum value for their shares, utilized preclusive corporate and deal protection terms to inhibit an alternate transaction and failed to conduct an appropriate sale process, and that Centrue's largest shareholder and its representative on Centrue's board of directors exerted influence to force a sale of Centrue at an unfair price. The action seeks a variety of equitable and injunctive relief including, among other things, enjoining the consummation of the merger, directing the defendants to exercise their fiduciary duties to obtain a transaction that is in the best interests of Centrue shareholders and awarding plaintiff its costs and attorneys' fees. The defendants believe that the claims asserted in the litigation are wholly without merit and they intend to defend them vigorously. Other potential plaintiffs may file additional lawsuits challenging the proposed transaction.

Item 4. Mine Safety Disclosures

Not applicable.

CENTRUE FINANCIAL CORPORATION

PART II

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

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

The Company's Common Stock was held by approximately 682 stockholders of record as of February 28, 2017, and is traded on the NASDAQ Capital Market under the symbol "CFCB." The table below indicates the high and low sales prices of the Common Stock as reported by NASDAQ for transactions of which the Company is aware, and the dividends declared per share for the Common Stock during the periods indicated. Because the Company is not aware of the price at which certain private transactions in the Common Stock have occurred, the prices shown may not necessarily represent the complete range of prices at which transactions in the Common Stock have occurred during such periods.

| | Stock Sales | |
|----------------|-------------|---------|
| | High | Low |
| 2016 | | |
| First Quarter | \$18.36 | \$15.26 |
| Second Quarter | 17.95 | 16.24 |
| Third Quarter | 20.84 | 16.42 |
| Fourth Quarter | 22.57 | 18.55 |

2015

| | | |
|----------------|---------|---------|
| First Quarter | \$15.60 | \$10.80 |
| Second Quarter | 19.65 | 10.80 |
| Third Quarter | 18.00 | 14.25 |
| Fourth Quarter | 17.75 | 14.95 |

RECENT SALES OF UNREGISTERED SECURITIES

On July 29, 2014, the Company issued to (i) Dennis McDonnell and Kathleen McDonnell, the Dennis J. McDonnell Trust dated as of May 9, 1991, and the Dennis J. McDonnell IRA (all related persons under Section 382(l)(3) constructive ownership rules); (ii) Jim Miller; and (iii) Wayne Whalen and Paul Wolff, and WPW Associates, L.P. (both related persons under Section 382(l)(3) constructive ownership rules) 2,635,546 newly issued shares of Fixed Rate Non-Voting Perpetual Non-Cumulative Preferred Stock, Series D of the Company (the "Series D Preferred"), in exchange for 2,762.24 shares of 7.500% Series A Convertible Preferred Stock and 50,993 shares of Common Stock. The shares of Series D Preferred were issued in reliance on the exemption set forth in Section 3(a)(9) of the Securities Act of 1933, and in connection with this exchange (i) the Company was the issuer of both the shares surrendered and the Series D Preferred issued in the exchange; (ii) the only consideration from the security holders for the exchange was surrender of the Common Stock and 7.500% Series A Convertible Preferred Stock referenced above; (iii) all of the recipients of the Series D Preferred were existing stockholders of the Company; and (iv) the Company paid no fees or commissions to any third party in connection with the exchange or the solicitation of the exchange.

On March 31, 2015, 6,333,333 shares of Common Stock were issued to seventy-two (72) investors. Sandler O'Neil & Partners, L.P and Boenning & Scattergood, Inc. assisted the Company in completing the private placement and were paid commissions of \$4,826,150. The proceeds of the offering were used to pay the expenses of the offering, to pay commissions to Sandler O'Neil & Partners, L.P and Boenning & Scattergood, Inc. the proceeds of the issuance were used to repay \$4,925,000 of TRuPs preferred dividends; and \$27,500,000 was used to retire and redeem senior debt, sub debt, preferred stock, dividends and warrants. The offers, sales and issuances of the securities issued on March 31, 2015 were exempt from registration under Section 4(a)(2) of the Securities Act of 1933 and Regulation D promulgated thereunder, and a Form D was filed for the issuance. The recipients represented to the Company that they acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof, appropriate legends were affixed to the securities issued in these transactions and the recipients represented to us that they were accredited investors as defined in Rule 501 promulgated under the Securities Act of 1933.

CENTRUE FINANCIAL CORPORATION

PART II

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Item 6. Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of the Company for the periods and at the dates indicated. Common shares and per share amounts for all periods shown have been restated to reflect the impact of the reverse stock split the Company completed effective May 29, 2015.

| | As of and For the Years Ended December 31, | | | |
|--|--|-----------|------------|-----------|
| | 2016 | 2015 | 2014 | 2013 |
| Statement of Income Data | | | | |
| Interest income | \$31,688 | \$28,755 | \$27,595 | \$28,181 |
| Interest expense | 2,702 | 2,451 | 3,500 | 4,259 |
| Net interest income | 28,986 | 26,304 | 24,095 | 23,922 |
| Provision for loan losses | 300 | 375 | 7,202 | 3,425 |
| Net interest income loss after provision for loan losses | 28,686 | 25,929 | 16,893 | 20,497 |
| Noninterest income | 12,746 | 12,428 | 12,810 | 16,699 |
| Noninterest expense | 31,514 | 33,239 | 34,214 | 33,516 |
| Income (loss) before income taxes | 9,918 | 5,118 | (4,511) | 3,680 |
| Income taxes (benefit) | 3,602 | (37,484) | — | — |
| Net income (loss) | \$6,316 | \$42,602 | \$(4,511) | \$3,680 |
| Net income (loss) for common stockholders ⁽¹⁾ | \$5,987 | \$54,786 | \$(8,080) | \$1,480 |
| Per Share Data | | | | |
| Basic earnings (loss) per common share ⁽¹⁾ | \$0.92 | \$11.08 | \$(44.81) | \$7.32 |
| Diluted earnings (loss) per common share ⁽¹⁾ | 0.92 | 11.08 | (44.81) | 7.32 |
| Cash dividends on common stock | NM | NM | NM | NM |
| Dividend payout ratio for common stock | NM | NM | NM | NM |
| Book value per common share | \$19.08 | \$18.21 | \$(32.93) | \$13.37 |
| Tangible book value per common share | 19.08 | 18.08 | (45.04) | (0.39) |
| Basic weighted average common shares outstanding | 6,513,694 | 4,945,073 | 180,320 | 202,115 |
| Weighted average common shares outstanding | 6,517,109 | 4,945,073 | 180,320 | 202,115 |
| Common shares outstanding | 6,513,694 | 6,513,694 | 151,122 | 202,115 |
| Balance Sheet | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$22,507 | \$27,655 | \$49,167 | \$70,748 |
| Securities | 175,787 | 180,556 | 141,473 | 163,869 |
| Loans held for sale | — | 735 | 364 | 653 |
| Loans | 685,775 | 633,547 | 553,200 | 565,518 |
| Allowance for loan losses | (8,904) | (8,591) | (7,981) | (11,637) |
| Loans, net of allowance | 676,871 | 624,956 | 545,219 | 553,881 |
| Other real estate owned, net | 5,042 | 8,401 | 10,256 | 23,318 |
| Other assets | 97,572 | 118,915 | 70,610 | 70,409 |
| Total assets | \$977,779 | \$961,218 | \$817,089 | \$882,878 |

CENTRUE FINANCIAL CORPORATION

PART II

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| | As of and For the Years Ended December 31, | | | |
|--|--|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 | 2013 |
| Liabilities and stockholders' equity | | | | |
| Non-interest bearing deposits | \$152,524 | \$164,137 | \$144,633 | \$139,185 |
| Interest bearing deposits | 587,522 | 554,367 | 554,191 | 615,160 |
| Total deposits | 740,046 | 718,504 | 698,824 | 754,345 |
| Non-deposit funding | 106,687 | 115,618 | 77,829 | 83,409 |
| Other liabilities | 4,117 | 5,815 | 10,108 | 9,253 |
| Total liabilities | 850,850 | 839,937 | 786,761 | 847,007 |
| Stockholders' equity | 126,929 | 121,281 | 30,328 | 35,871 |
| Total liabilities and stockholders' equity | \$977,779 | \$961,218 | \$817,089 | \$882,878 |
| Earnings Performance Data | | | | |
| Return (loss) on average total assets | 0.64 | % 4.79 | % (0.52) |)% 0.41 |
| Return (loss) on average stockholders' equity | 5.09 | 60.29 | (12.42) |) 13.51 |
| Net interest margin ⁽²⁾ | 3.43 | 3.40 | 3.33 | 3.21 |
| Efficiency ratio ⁽³⁾ | 78.27 | 84.53 | 87.48 | 86.96 |
| Asset Quality Data | | | | |
| Nonperforming assets to total end of period assets | 0.68 | % 1.50 | % 2.20 | % 5.93 |
| Nonperforming loans to total end of period loans | 0.24 | 0.93 | 1.40 | 5.13 |
| Net loan charge-offs (recoveries) to total average loans | NM | (0.04) |) 1.90 | 1.92 |
| Allowance for loan losses to total end of period loans | 1.30 | 1.33 | 1.44 | 2.06 |
| Allowance for loan losses to nonperforming loans | 545.59 | 143.02 | 102.99 | 40.06 |
| Nonperforming loans | \$1,632 | \$6,007 | \$7,749 | \$29,052 |
| Nonperforming assets | 6,674 | 14,408 | 18,005 | 52,370 |
| Net loan charge-offs (recoveries) | (13) |) (235) |) 10,858 | 10,736 |
| Capital Ratios | | | | |
| Total risk-based capital ratio | 14.95 | % 15.64 | % 9.64 | % 10.22 |
| Common equity tier 1 risk-based capital ratio | 13.77 | 14.23 | NM | NM |
| Tier 1 leverage ratio | 11.49 | 12.10 | 4.93 | 5.22 |

(1) Net income for common stockholders in 2015 was significantly impacted by a GAAP requirement that any discount received on preferred stock redemption be attributed back to common stockholders. This non-recurring item reflects the retirement of the Series C Preferred stock for \$19.0 million which had outstanding par value of \$32.7 million less \$1.0 million of unpaid dividends cumulating prior to the retirement and \$0.5 million of Series D Preferred stock dividends paid in 2014, resulting in the \$12.2 million addition to net income for common stockholders. This impacts the earnings per share data, but does not impact the income statement, book value or any of the earnings performance ratios.

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

Calculated as noninterest expense less amortization of intangibles and expenses related to other real estate owned divided by the sum of net interest income before provisions for loan losses and total noninterest income excluding securities gains and losses, OREO rental income (\$230 thousand, \$344 thousand, \$324 thousand and \$473 thousand; for December 31, 2016, 2015, 2014 & 2013, respectively), and gains on sale of assets.

(NM) Not meaningful.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

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

The following management discussion and analysis ("MD&A") is intended to address the significant factors affecting the Company's results of operations and financial condition for the twelve months ended December 31, 2016 as compared to the same period in 2015. The preparation of financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. When we use the terms "Centrue," the "Company," "we," "us," and "our," we mean Centrue Financial Corporation, a Delaware corporation, and its consolidated subsidiaries. When we use the term the "Bank," we are referring to our wholly owned banking subsidiary, Centrue Bank.

The MD&A should be read in conjunction with the consolidated financial statements of the Company, and the accompanying notes thereto. Actual results could differ from those estimates. All financial information in the following tables is displayed in thousands (000s), except per share data.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934 as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by the use of words such as "believe," "expect," "intend," "anticipate," "estimate," "project," "planned" or "potential" or similar expressions.

The Company's ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and the subsidiaries include, but are not limited to, changes in: interest rates; general economic conditions; legislative/regulatory changes; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality and composition of the loan or securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Company's market areas; the Company's implementation of new technologies; the Company's ability to develop and maintain secure and reliable electronic systems; and accounting principles, policies, and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Critical Accounting Policies and Estimates

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

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

Centrue's significant accounting policies are described in Note 1 in the Notes to the Consolidated Financial Statements. 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 are deemed critical:

Securities: Securities are classified as available-for-sale when Centrue may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields on alternative investments, and for other reasons.

They are carried at fair value with unrealized gains and losses, net of taxes, reported in other comprehensive income. All of Centrué's securities are classified as available-for-sale. For all securities, we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Due to the limited nature of the market for certain securities, the fair value and potential sale proceeds could be materially different in the event of a sale.

Realized securities gains or losses are reported in securities gains (losses), net in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Declines in the fair value of available for sale securities below

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

their amortized cost are evaluated to determine whether the loss is temporary or other-than-temporary. If the Company (a) has the intent to sell a debt security or (b) is more likely than not will be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire unrealized loss in earnings as an other-than-temporary loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The impairment is separated into (a) the amount of the total impairment related to the credit loss and (b) the amount of total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income. The Company also evaluates whether the decline in fair value of an equity security is temporary or other-than-temporary. In determining whether an unrealized loss on an equity security is temporary or other-than-temporary, management considers various factors including the magnitude and duration of the impairment, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the equity security to forecasted recovery.

Allowance for Loan Losses: The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's estimate of probable incurred credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses is based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board guidance and rules stating that the analysis of the allowance for loan losses consists of three components:

Specific Component. The specific credit allocation component is based on an analysis of individual impaired loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification for which the recorded investment in the loan exceeds its fair value. The fair value of the loan is determined based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less cost of sale. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values;

Historical Loss Component. The historical loss component is mathematically based using a modified loss migration analysis that examines historical loan loss experience for each loan category. The loss migration is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume. The methodology utilized by management to calculate the historical loss portion of the allowance adequacy analysis is based on historical losses. This historical loss period is based on a weighted twelve-quarter average (3 years); and

Qualitative Component. The qualitative component requires qualitative judgment and estimates reserves based on general economic conditions as well as specific economic factors believed to be relevant to the markets in which the Company operates. The process for determining the allowance (which management believes adequately considers all of the potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change.

To the extent actual outcomes differs from management estimates, additional provision for credit losses could be required that could adversely affect the Company's earnings or financial position in future periods.

Income Taxes: We determine our income tax expense based on management's judgments and estimates regarding permanent differences in the treatment of specific items of income and expense for financial statement and income tax

purposes. These permanent differences result in an effective tax rate that differs from the federal statutory rate. In addition, we recognize deferred tax assets and liabilities in the Consolidated Balance Sheets based on management's judgment and estimates regarding timing differences in the recognition of income and expenses for financial statement and income tax purposes.

We assess the likelihood that any deferred tax assets will be realized through the reduction or refund of taxes in future periods and establish a valuation allowance for those assets for which recovery is not more likely than not. In making this assessment, management makes judgments and estimates regarding the ability to realize the asset through carryback to taxable income in prior years, the future reversal of existing taxable temporary differences, future taxable income, and the possible application of future tax planning strategies. Management believes that it is more likely than not that deferred tax assets included in the accompanying

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Consolidated Balance Sheets will be fully realized, although there is no guarantee that those assets will be recognizable in future periods.

Management also makes certain interpretations of federal and state income tax laws for which the outcome of the tax position may not be certain. Uncertain tax positions are periodically evaluated and we may establish tax reserves for benefits that may not be realized. For additional discussion of income taxes, see Notes 1 and 11 of "Notes to the Consolidated Financial Statements" in Item 8 of this Form 10-K.

General

Centrue Financial Corporation is a bank holding company organized under the laws of the State of Delaware. The Company provides a full range of products and services to individual and corporate customers extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area. These products and services include demand, time, and savings deposits; lending; mortgage banking, brokerage, asset management, and trust services. Brokerage, asset management, and trust services are provided to our customers on a referral basis to third party providers. The Company is subject to competition from other financial institutions, including banks, thrifts and credit unions, as well as nonfinancial institutions providing financial services. Additionally, the Company and its subsidiary, Centrue Bank, are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Results of Operations

Net Income

2016 compared to 2015.

Net income equaled \$6.3 million or \$0.92 per common diluted share for the year ended December 31, 2016, as compared to net income of \$42.6 million or \$11.08 per common diluted share for the year ended December 31, 2015. The 2016 full year results were impacted by a \$1.1 million net after tax gain from sale of three branches. Fourth quarter and full year 2015 results were impacted by a reversal of the Company's deferred tax asset ("DTA") which provided a tax benefit during 2015 in the amount of \$38.2 million.

Net Interest Income/ Margin

Net interest income is the difference between income earned on interest-earning assets and the interest expense incurred for the funding sources used to finance these assets. Changes in net interest income generally occur due to fluctuations in the volume of earning assets and paying liabilities and rates earned and paid, respectively, on those assets and liabilities. The net yield on total interest-earning assets, also referred to as net interest margin, represents net interest income divided by average interest-earning assets. Net interest margin measures how efficiently the Company uses its earning assets and underlying capital. The Company's long-term objective is to manage those assets and liabilities to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risks. For purposes of this discussion, both net interest income and margin have been adjusted to a fully tax equivalent basis for certain tax-exempt securities and loans.

2016 compared to 2015.

Net interest income, on a tax equivalent basis, increased \$2.6 million from \$26.4 million earned during the full year 2015 to \$29.0 million for the full year 2016. This was the result of an increase in interest income, driven by the growth in the loan portfolio.

Tax equivalent interest income rose \$2.9 million as compared to 2015. A \$70.4 million increase in interest-earning assets improved interest income by \$2.6 million with the increase in the loan portfolio. A three basis point increase in the average yield on interest-earning assets increased interest income by \$0.3 million as loans made up a larger proportion of interest-earning assets during 2016 compared to 2015.

Interest expense increased \$0.3 million as compared to 2015. Interest-bearing liabilities increased \$38.9 million as funds were added to fund loan growth. The increase in interest-bearing liabilities was spread across most deposit and borrowing categories. A two basis point increase in total funding costs raised interest expense by \$0.1 million as replacement funding was raised to replace the core deposits sold with the three branch sales during the year.

The net interest margin increased three basis points to 3.43% for the year ended December 31, 2016 from 3.40% during the same period in 2015. The Company's margin improved as it grew new loans, reduced nonaccruing loans in the portfolio and paid-off debt obligations.

2015 compared to 2014.

Net interest income, on a tax equivalent basis, increased \$2.2 million from \$24.2 million earned during the full year 2014 to \$26.4 million for the full year 2015. This was the result of an increase in interest income, as well as, a decrease in interest expense.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Tax equivalent interest income rose \$1.1 million as compared to 2014. A \$47.2 million increase in interest-earning assets improved interest income by \$1.7 million with the increases in both the securities and loan portfolios. A nine basis point decline in the average yield on interest-earning assets reduced interest income by \$0.6 million as securities, with lower yields than loans, made up a larger proportion of interest-earning assets during 2015 compared to 2014. Interest expense declined \$1.0 million as compared to 2014. A \$19.2 million decrease in interest-bearing liabilities reduced interest expense by an immaterial amount. The decrease in interest-bearing liabilities was largely concentrated in high cost time deposits. A fourteen basis point decline in total funding costs reduced interest expense by \$1.0 million as high cost time deposits matured and were replaced with non-maturing deposits. The net interest margin increased seven basis points to 3.40% for the year ended December 31, 2015 from 3.33% during the same period in 2014. The Company's margin improved as it grew new loans, reduced nonaccruing loans in the portfolio, reduced high cost time deposits and paid-off debt obligations.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

| | For the Years Ended December 31, | | | | | |
|--|----------------------------------|----------------------------|-----------------|--------------------|----------------------------|--------------------|
| | 2016 | | 2015 | | | |
| | Average Balance | Interest/Income Expense | Average Rate | Average Balance | Interest/Income Expense | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets | | | | | | |
| Interest-earning deposits | \$2,083 | \$ 118 | 5.66 % | \$2,488 | \$ 65 | 2.61 % |
| Securities | | | | | | |
| Taxable | 177,896 | 2,905 | 1.63 | 176,119 | 2,887 | 1.64 |
| Non-taxable | 4,045 | 137 | 3.39 | 6,071 | 248 | 4.08 |
| Total securities (tax equivalent) | 181,941 | 3,042 | 1.67 | 182,190 | 3,135 | 1.72 |
| Federal funds sold | 563 | 16 | 2.84 | 2,058 | 20 | 0.97 |
| Loans | | | | | | |
| Commercial | 103,780 | 4,265 | 4.11 | 101,809 | 4,126 | 4.05 |
| Real estate | 554,464 | 24,114 | 4.35 | 483,977 | 21,337 | 4.41 |
| Installment and other | 3,175 | 192 | 6.05 | 3,080 | 175 | 5.68 |
| Gross loans (tax equivalent) | 661,419 | 28,571 | 4.32 | 588,866 | 25,638 | 4.35 |
| Total interest-earnings assets | 846,006 | 31,747 | 3.75 | 775,602 | 28,858 | 3.72 |
| Noninterest-earning assets | | | | | | |
| Cash and cash equivalents | 40,046 | | | 43,721 | | |
| Premises and equipment, net | 18,949 | | | 22,370 | | |
| Other assets | 79,765 | | | 48,431 | | |
| Total nonearning assets | 138,760 | | | 114,522 | | |
| Total assets | \$984,766 | | | \$890,124 | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing liabilities | | | | | | |
| NOW accounts | | | 130,262 | 115 | 0.09 | 119,202 89 0.07 |
| Money market accounts | | | 121,617 | 289 | 0.24 | 118,711 208 0.18 |
| Savings deposits | | | 124,480 | 14 | 0.01 | 123,233 13 0.01 |
| Time deposits | | | 204,947 | 939 | 0.46 | 195,358 917 0.47 |
| Federal funds purchased and repurchase agreements | | | 14,375 | 37 | 0.26 | 18,144 50 0.28 |
| Advances from FHLB | | | 86,686 | 746 | 0.86 | 64,370 529 0.82 |
| Notes payable | | | 18,971 | 562 | 2.96 | 23,387 645 2.76 |
| Total interest-bearing liabilities | | | 701,338 | 2,702 | 0.39 | 662,405 2,451 0.37 |
| Noninterest-bearing liabilities | | | | | | |
| Noninterest-bearing deposits | | | 154,183 | | | 150,460 |
| Other liabilities | | | 5,079 | | | 6,594 |
| Total noninterest-bearing liabilities | | | 159,262 | | | 157,054 |
| Stockholders' equity | | | 124,166 | | | 70,665 |
| Total liabilities and stockholders' equity | | | \$984,766 | | | \$890,124 |
| Net interest income (tax equivalent) | | | | \$29,045 | | \$26,407 |
| Net interest income (tax equivalent) to total earning assets | | | | | 3.43 % | 3.40 % |
| Interest-bearing liabilities to earning assets | | | | | 82.90% | 85.41 % |

(1) Average balance and average rate on securities classified as available-for-sale is based on historical amortized cost balances.

- (2) Interest income and average rate on tax exempt securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
- (3) In 2016 there was \$37 in tax equivalent interest included in gross loans and \$53 in 2015.
- (4) Nonaccrual loans are included in the average balances; overdraft loans are excluded in the balances.
- (5) Loan fees are included in the specific loan category.
- (6) Average balances are derived from daily balances.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

| | For the Years Ended December 31, | | | | | |
|--|----------------------------------|----------------------------|-----------------|--------------------|----------------------------|-----------------|
| | 2015 | | | 2014 | | |
| | Average Balance | Interest/Income Expense | Average Rate | Average Balance | Interest/Income Expense | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets | | | | | | |
| Interest-earning deposits | \$2,488 | \$ 65 | 2.61 % | \$3,480 | \$ 81 | 2.33 % |
| Securities | | | | | | |
| Taxable | 176,119 | 2,887 | 1.64 | 140,494 | 2,272 | 1.62 |
| Non-taxable | 6,071 | 248 | 4.08 | 6,055 | 352 | 5.82 |
| Total securities (tax equivalent) | 182,190 | 3,135 | 1.72 | 146,549 | 2,624 | 1.79 |
| Federal funds sold | 2,058 | 20 | 0.97 | 5,620 | 40 | 0.71 |
| Loans | | | | | | |
| Commercial | 101,809 | 4,126 | 4.05 | 93,643 | 3,888 | 4.15 |
| Real estate | 483,977 | 21,337 | 4.41 | 476,430 | 20,935 | 4.39 |
| Installment and other | 3,080 | 175 | 5.68 | 2,698 | 166 | 6.14 |
| Gross loans (tax equivalent) | 588,866 | 25,638 | 4.35 | 572,771 | 24,989 | 4.36 |
| Total interest-earnings assets | 775,602 | 28,858 | 3.72 | 728,420 | 27,734 | 3.81 |
| Noninterest-earning assets | | | | | | |
| Cash and cash equivalents | 43,721 | | | 58,761 | | |
| Premises and equipment, net | 22,370 | | | 22,984 | | |
| Other assets | 48,431 | | | 56,689 | | |
| Total nonearning assets | 114,522 | | | 138,434 | | |
| Total assets | \$890,124 | | | \$866,854 | | |
| LIABILITIES & STOCKHOLDERS' | | | | | | |
| EQUITY | | | | | | |
| Interest-bearing liabilities | | | | | | |
| NOW accounts | | | 119,202 | 89 | 0.07 | 117,203 |
| Money market accounts | | | 118,711 | 208 | 0.18 | 122,968 |
| Savings deposits | | | 123,233 | 13 | 0.01 | 117,599 |
| Time deposits | | | 195,358 | 917 | 0.47 | 247,690 |
| Federal funds purchased and repurchase agreements | | | 18,144 | 50 | 0.28 | 18,560 |
| Advances from FHLB | | | 64,370 | 529 | 0.82 | 26,466 |
| Notes payable | | | 23,387 | 645 | 2.76 | 31,138 |
| Total interest-bearing liabilities | | | 662,405 | 2,451 | 0.37 | 681,624 |
| Noninterest-bearing liabilities | | | | | | |
| Noninterest-bearing deposits | | | 150,460 | | | 139,260 |
| Other liabilities | | | 6,594 | | | 9,656 |
| Total noninterest-bearing liabilities | | | 157,054 | | | 148,916 |
| Stockholders' equity | | | 70,665 | | | 36,314 |
| Total liabilities and stockholders' equity | | | \$890,124 | | | \$866,854 |
| Net interest income (tax equivalent) | | | | \$26,407 | | \$24,234 |
| Net interest income (tax equivalent) to total earning assets | | | | | 3.40 % | 3.33 % |
| Interest-bearing liabilities to earning assets | | | | | 85.41 % | 93.58 % |

- (1) Average balance and average rate on securities classified as available-for-sale is based on historical amortized cost balances.
- (2) Interest income and average rate on tax exempt securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
- (3) In 2015 there was \$53 in tax equivalent interest included in gross loans and \$55 in 2014.
- (4) Nonaccrual loans are included in the average balances; overdraft loans are excluded in the balances.
- (5) Loan fees are included in the specific loan category.
- (6) Average balances are derived from daily balances.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The Company's net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume change". It is also affected by changes in yield earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds referred to as "rate change". The following table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. Any variance attributed jointly to volume and rate change is allocated to the volume and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

RATE/VOLUME ANALYSIS OF
NET INTEREST INCOME

| | For the Years Ended December 31, | | | | | |
|---|----------------------------------|--------|---------|-----------------------|--------|----------|
| | 2016 Compared to 2015 | | | 2015 Compared to 2014 | | |
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest income: | | | | | | |
| Interest-earning deposits | \$(68) | \$121 | \$53 | \$(12) | \$(4) | \$(16) |
| Investment securities: | | | | | | |
| Taxable | 20 | (2) | 18 | 633 | (18) | 615 |
| Non-taxable | (104) | (7) | (111) | 166 | (270) | (104) |
| Federal funds sold | (40) | 36 | (4) | (13) | (7) | (20) |
| Loans | 2,830 | 103 | 2,933 | 993 | (344) | 649 |
| Total interest income | 2,638 | 251 | 2,889 | 1,767 | (643) | 1,124 |
| Interest expense: | | | | | | |
| NOW accounts | 1 | 25 | 26 | 5 | (17) | (12) |
| Money market accounts | (26) | 107 | 81 | (3) | (26) | (29) |
| Savings deposits | — | 1 | 1 | 1 | — | 1 |
| Time deposits | 143 | (121) | 22 | (314) | (459) | (773) |
| Federal funds purchased and repurchase agreements | \$(11) | (2) | (13) | \$— | (5) | (5) |
| Advances from FHLB | \$179 | 38 | 217 | \$463 | (384) | 79 |
| Notes payable | \$(139) | 56 | (83) | \$(247) | (63) | (310) |
| Total interest expense | 147 | 104 | 251 | (95) | (954) | (1,049) |
| Net interest income | \$2,491 | \$147 | \$2,638 | \$1,862 | \$311 | \$2,173 |

Provision for Loan Losses

The amount of the provision for loan losses is based on management's evaluations of the loan portfolio, with particular attention directed toward nonperforming, impaired and other potential problem loans. During these evaluations, consideration is also given to such factors as management's evaluation of specific loans, the level and composition of impaired loans, other nonperforming loans, other identified potential problem loans, historical loss experience, results of examinations by regulatory agencies, results of the independent asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guarantees, concentrations of credits and various other factors, including concentration of credit risk in various industries and current economic conditions. 2016 compared to 2015.

The Company recorded \$0.3 million of provision for loan losses during 2016 in comparison to \$0.4 million recorded in the same period in 2015. The reduced need for provision charge during the period was driven by the following factors:

- No material migrations of performing loans to nonperforming status from year-end 2015 to year-end 2016;
- Charge-offs during the period were offset by recoveries, resulting in net recoveries for the year;
- Continued stabilization of collateral values.

Management continues to update collateral values and evaluate the level of specific allocations for impaired loans. As impaired loans have moved through the liquidation process, many of the previously established specific allocations have been charged off.

31

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

2015 compared to 2014.

The 2015 provision for loan losses charged to operating expense totaled \$0.4 million, a decrease of \$6.8 million in comparison to \$7.2 million recorded in the 2014 period. The largest part of the decrease was related to the bulk asset sale that was completed in late 2014 and increased the provision charge by \$2.9 million. Additionally the provision level for 2014 was driven by more aggressive workout strategies as the Company made a significant improvement to asset quality during the year.

Noninterest Income

Noninterest income consists of a wide variety of fee-based revenues, including bank-related service charges on deposits, mortgage revenues and increases in cash surrender value on bank-owned life insurance.

2016 compared to 2015.

Noninterest income totaled \$12.7 million for year ended December 31, 2016, compared to \$12.4 million for the same period in 2015. Excluding gains related to the sale of OREO, securities, branches and other non-recurring gains, noninterest income decreased by \$0.6 million or 4.8%. The decline from 2015 was across several categories such as: income from real estate, service charges and mortgage banking income and can be largely attributed to the three branch sales during the year.

2015 compared to 2014.

Noninterest income totaled \$12.4 million for year ended December 31, 2015, compared to \$12.8 million for the same period in 2014. Excluding gains related to the sale of OREO, securities and other non-recurring gains, noninterest income decreased by \$0.6 million or 5.9%. The decline from 2014 can be attributed to a decrease in mortgage banking income along with a decline in service charge income.

Noninterest Expense

Noninterest expense is comprised primarily of compensation and employee benefits, occupancy and other operating expense.

2016 compared to 2015.

Noninterest expense for the year ended December 31, 2016 was \$31.5 million which was \$1.7 million lower than the year ended December 31, 2015. When excluding the OREO valuation adjustments and other infrequently occurring items, noninterest expense was \$0.5 million, or 1.6%, below the comparable amount for 2015 driven by a reduction in FDIC premium expense, loan collection costs and OREO carrying costs. Partially offsetting these improvements were the costs of being a public registrant in 2016.

2015 compared to 2014.

Noninterest expense totaled \$33.2 million for the year ended December 31, 2015, as compared to \$34.2 million for the same period in 2014. This represented a decrease of \$1.0 million or 2.9% in 2015 from 2014. Excluding OREO valuations adjustments and other non-recurring items, noninterest expense was \$0.4 million, or 1.3%, higher in 2015 compared to 2014 driven by an increase in salaries and partially offset by a reduction in FDIC premium expense.

Applicable Income Taxes

In accordance with current income tax accounting guidance, the Company assessed whether a valuation allowance should be established against their deferred tax assets (DTAs) based on consideration of all available evidence using a "more likely than not" standard. The most significant portions of the deductible temporary differences relate to (1) net operating loss carryforwards and (2) the allowance for loan losses.

In assessing the need for a valuation allowance, both the positive and negative evidence about the realization of DTAs were evaluated. The ultimate realization of DTAs is based on the Company's ability to carryback net operating losses to prior tax periods, tax planning strategies that are prudent and feasible, and the reversal of deductible temporary differences that can be offset by taxable temporary differences and future taxable income.

In 2010, the Company established a valuation allowance of \$31.5 million against its DTAs because it concluded that, based upon the weight of all available evidence, it was "more likely than not" that the deferred tax asset would not be realized. The valuation allowance increased to \$39.8 million at December 31, 2014 due mainly to increases in the net operating loss carryforwards each year from 2010 through 2014. The valuation allowance decreased to \$38.2 million

before being reversed to zero at December 31, 2015 due to taxable income generated in 2015 which reduced the net operating loss carryforwards.

We evaluate the need for a deferred tax asset valuation allowance on an ongoing basis. For the years ended December 31, 2016 and December 31, 2015, management determined that it is “more likely than not” that the deferred tax asset will be realized. This conclusion was based on an analysis of both positive and negative evidence. Positive evidence included our return to profitability and positive three year cumulative pre-tax earnings as of December 31, 2015, significant improvement in asset quality and credit

CENTRUE FINANCIAL CORPORATION
 PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

ratios, positive loan growth throughout 2015, future taxable income based on robust forecasting models including prudent and feasible tax planning strategies if needed, and the termination of the Company's Written Agreement by the Federal Reserve Bank of Chicago and the Illinois Department of Financial and Professional Regulation. Negative evidence included a pre-tax loss in 2014, no available taxes paid in open carryback years, and the fact that the banking industry is highly competitive and heavily regulated. Management determined that the positive evidence outweighed the negative and therefore the Company released the \$38.2 million valuation allowance against the net deferred tax asset on December 31, 2015 resulting in an income tax benefit.

Interest Rate Sensitivity Management

The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities) which are funded for the most part by interest-bearing liabilities (deposits and borrowings). All of the financial instruments of the Company are held for investment rather than trading purposes. Such financial instruments have varying levels of sensitivity of economic value to changes in market rates of interest, but also sensitivity in coupon income for adjustable rate instruments and reinvestment income of maturing instruments. The operating income and net income of the Bank depends, to a substantial extent, on "rate differentials," i.e., the differences between the income the Bank receives from loans, securities, and other earning assets and the interest expense they pay to obtain deposits and other funding sources. These rates are highly sensitive to many factors that are beyond the control of the Bank, including general economic conditions and the policies of various governmental and regulatory authorities.

The Company measures its overall interest rate sensitivity through a multiple scenario analysis. The primary analysis measures the change in net interest income resulting from instantaneous hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 100 to 300 basis point increase or decrease in market interest rates. Due to the current rate environment, this analysis was done in 2015 using a 100 basis point decrease in rates versus the normal 100 to 300 basis point decreases. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions including parallel shifts of market interest rates, loan and security prepayments, and deposit run-off rates and should not be relied upon as indicative of actual results. Actual values may differ from those projections set forth above, should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate actions the Company may undertake in response to changes in interest rates. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements.

The tables below present the Company's projected changes in net interest income for December 31, 2016 and December 31, 2015 for the various rate shock levels.

| Change in Net Interest Income | | | | | |
|-------------------------------|---------|--------------|---|---------|--------|
| Over One Year Horizon | | | | | |
| December 31, | | December 31, | | | |
| 2016 | | 2015 | | | |
| Change | | Change | | | |
| \$ | % | \$ | % | | |
| + 300 bp | \$1,567 | 5.12 | % | \$1,966 | 6.89 |
| + 200 bp | 1,038 | 3.39 | | 1,264 | 4.43 |
| + 100 bp | 455 | 1.49 | | 649 | 2.27 |
| Base | — | — | | — | — |
| - 100 bp | (1,690) | (5.53) | | (1,550) | (5.43) |

As shown above, the effect of an immediate 200 basis point increase in interest rates as of December 31, 2016 would increase the Company's net interest income by \$1.0 million or 3.39%. The effect of an immediate 100 basis point decrease in rates would decrease the Company's net interest income by \$1.7 million or 5.53%.

During 2015, management continued to position the balance sheet to generate a benefit to income in a rising interest rate environment. This was accomplished by allowing the fixed rate securities to run off and replacing them with adjustable rate securities. The loan portfolio had a lower amount of loans on which interest was not accruing at the end of the year, thus having a larger percentage of the total benefitting from rising interest rates. The primary factor increasing the benefit to the margin from rising interest rates was the greater percentage of funding coming from non-maturity deposits. These deposits tend to be less sensitive to rising interest rates as these are primarily transaction balances. This is somewhat related to the general industry trend of an influx of funds from money market mutual funds which will likely be less secure funding. This makes it necessary to invest these funds focusing on less volatile assets. With the influx of deposits into non-maturity accounts there was reduced dependence on time deposits and from wholesale funding. Time deposits and wholesale funding tend to have the highest sensitivity to rising interest rates and our reduced concentration of this type of funding allows greater benefit to the margin from rising interest rates.

CENTRUE FINANCIAL CORPORATION
 PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Financial Condition

General

Following are highlights of the December 31, 2016 balance sheet when compared to December 31, 2015:

Loans. The Company offers a broad range of products, including commercial; agricultural production and agricultural real estate; construction, land and development; commercial real estate, 1-4 family mortgages; and consumer loans, designed to meet the credit needs of its borrowers. The Company's loans are diversified by borrower and industry group.

Outstanding loans totaled \$685.8 million at December 31, 2016 compared to \$633.5 million at December 31, 2015, representing an increase of \$52.3 million or 8.3%. This increase is primarily due to a combination of new organic loan growth and normal seasonal line draws offset by \$13.1 million of loans sold with branch sales during the year. See Note 19. Business Acquisitions and Divestitures for additional disclosure related to the branch sales.

As of December 31, 2016 and December 31, 2015, commitments of the Bank under standby letters of credit and unused lines of credit totaled approximately \$125.9 million and \$151.8 million.

STATED LOAN MATURITIES (1)

| | Within 1 Year | 1 to 5 Years | After 5 Years | Total |
|----------------------------------|------------------|-----------------|------------------|-----------|
| Commercial | \$42,630 | \$25,396 | \$12,261 | \$80,287 |
| Agricultural & AGRE | 17,511 | 13,075 | 18,535 | 49,121 |
| Construction, land & development | 7,365 | 16,066 | 5,340 | 28,771 |
| Commerical RE | 44,800 | 261,882 | 132,644 | 439,326 |
| 1-4 mortgages | 12,258 | 29,907 | 42,987 | 85,152 |
| Consumer | 514 | 2,196 | 408 | 3,118 |
| Total | \$125,078 | \$348,522 | \$212,175 | \$685,775 |

(1) Maturities based upon contractual maturity dates

The maturities presented above are based upon contractual maturities. Many of these loans are made on a short-term basis with the possibility of renewal at time of maturity.

Rate sensitivities of the total loan portfolio, net of unearned income, at December 31, 2016 were as follows:

LOAN REPRICING

| | Within 1 Year | 1 to 5 Years | After 5 Years | Total |
|---------------|------------------|-----------------|------------------|-----------|
| Fixed rate | \$50,442 | \$242,831 | \$26,445 | \$319,718 |
| Variable rate | 73,433 | 105,424 | 185,588 | 364,445 |
| Nonaccrual | 1,203 | 267 | 142 | 1,612 |
| Total | \$125,078 | \$348,522 | \$212,175 | \$685,775 |

Nonperforming Assets

The Company's financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on its loan portfolio, unless a loan is placed on nonaccrual status. Loans are placed on nonaccrual status when there are serious doubts regarding the collectability of all principal and interest due under the terms of the loans. If a loan is placed on nonaccrual status, the loan does not generate current period income for the Company and any amounts received are generally applied first to principal and then to interest. A loan is generally transferred to nonaccrual status if it is not in the process of collection and is delinquent in payment of either principal or interest beyond 90 days.

CENTRUE FINANCIAL CORPORATION
 PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The classification of a loan as nonaccrual does not necessarily indicate that the principal is uncollectible, in whole or in part. The Bank makes a determination as to collectability on a case-by-case basis and considers both the adequacy of the collateral and the other resources of the borrower in determining the steps to be taken to collect nonaccrual loans. The final determination as to the steps taken is made based upon the specific facts of each situation.

Alternatives that are typically considered to collect nonaccrual loans are foreclosure, collection under guarantees, loan restructuring, or judicial collection actions.

Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

Each of the Company's commercial loans is assigned a risk rating at origination based upon an internally developed grading system. A separate credit administration department also reviews selected grade assignments on a quarterly basis. Management continuously monitors nonperforming, impaired, and past due loans in an effort to prevent further deterioration of these loans. The Company has engaged a third-party loan review firm to assist with the Company's loan review function.

The following table sets forth a summary of nonperforming assets:

| | December 31, | | | | |
|--|--------------|----------|----------|----------|---|
| | 2016 | 2015 | 2014 | 2013 | |
| Nonaccrual loans (including TDRs) | \$1,612 | \$6,007 | \$7,749 | \$28,871 | |
| TDRs still accruing interest | 20 | — | — | 181 | |
| Loans 90 days past due and still accruing interest | — | — | — | — | |
| Total nonperforming loans | \$1,632 | \$6,007 | \$7,749 | \$29,052 | |
| Other real estate owned | 5,042 | 8,401 | 10,256 | 23,318 | |
| Total nonperforming assets | \$6,674 | \$14,408 | \$18,005 | \$52,370 | |
| Nonperforming loans to total end of period loans | 0.24 | % 0.93 | % 1.40 | % 5.13 | % |
| Nonperforming assets to total end of period loans | 0.97 | 2.23 | 3.25 | 9.25 | |
| Nonperforming assets to total end of period assets | 0.68 | 1.50 | 2.20 | 5.93 | |

The Company's level of nonperforming assets has declined significantly over the past three years mainly due to the sale of \$35.2 million of troubled assets through the bulk asset sale completed on December 5, 2014 which included the sale of \$9.5 million in nonaccrual loans and \$7.7 million in OREO. Total nonperforming assets declined \$7.7 million to \$6.7 million, or 0.68% of total assets, at December 31, 2016 from \$14.4 million at December 31, 2015. Total nonperforming assets included \$0.1 million in troubled debt restructures, \$5.0 million of foreclosed assets and repossessed real estate, and \$1.6 million of nonaccrual loans compared to \$8.4 million of foreclosed assets, \$0.2 million in troubled debt restructures and \$5.8 million of nonaccrual loans at December 31, 2015.

Nonperforming Loans

Nonperforming loans (nonaccrual, 90 days past due and troubled debt restructures) decreased \$4.4 million from December 31, 2015 to December 31, 2016, largely due to successful workout strategies.

The level of nonperforming loans to end of period loans was 0.24% as of December 31, 2016 as compared to 0.93% as of December 31, 2015. As a result of the decrease in the nonperforming loans, the allowance to nonperforming loan coverage ratio increased to 545.59% for year ended December 31, 2016 from 143.02% for the year ended December 31, 2015.

Other Real Estate Owned

Other real estate owned (OREO) properties have been slow to move in the current economic environment. OREO was \$5.0 million as of December 31, 2016 compared to \$8.4 million as of December 31, 2015. During 2016, the Company transferred \$0.04 million of foreclosed or repossessed real estate from the loan portfolio. OREO properties with a carrying value of \$3.9 million were written down to their fair value of \$3.8 million, resulting in a charge to earnings of \$0.1 million. This compares to 2015 when OREO properties with a carrying value of \$5.2 million were written down

to their fair value of \$4.9 million, which resulted in a charge to earnings of \$0.3 million during the year.

35

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The following table sets forth a summary of other real estate owned at December 31, 2016 and December 31, 2015:

| | December 31, December 31, | |
|-------------------------------|---------------------------|----------|
| | 2016 | 2015 |
| | Net Book | Net Book |
| | Carrying | Carrying |
| | Value | Value |
| Developed property | \$ 2,897 | \$ 4,508 |
| Vacant land or unsold lots | 2,145 | 3,893 |
| Total other real estate owned | \$ 5,042 | \$ 8,401 |

Other Potential Problem Loans

The Company has other potential problem loans that are currently performing, but where some concerns exist regarding the nature of the borrowers' projects in our current economic environment. As of December 31, 2016, management identified \$1.3 million of loans that are currently performing but due to the economic environment facing these borrowers were classified by management as impaired. Impaired loans that are performing account for 44.18% of the loans deemed impaired during 2016. The Company proactively reviews loans for potential impairment regardless of the payment or performance status. This approach results in some relationships being classified as impaired but still performing.

Allowance for Loan Losses

At December 31, 2016, the allowance for loan losses was \$8.9 million, or 1.30% of total loans, as compared to \$8.6 million, or 1.33% of total loans, at December 31, 2015. The Company recorded \$0.3 million of provision to the allowance for loan losses for the year ended December 31, 2016 largely due to net loan growth.

Activity in the Allowance for years ended December 31, 2016 and December 31, 2015 was as follows.

| | December 31, December 31, | |
|-------------------|---------------------------|----------|
| | 2016 | 2015 |
| Beginning Balance | \$ 8,591 | \$ 7,981 |
| Net recoveries | 13 | 235 |
| Provision | 300 | 375 |
| Ending Balance | \$ 8,904 | \$ 8,591 |

The components of the Allowance for Loan Losses ("Allowance") at December 31, 2016 and December 31, 2015 were as follows.

| | December 31, December 31, | |
|---|---------------------------|----------|
| | 2016 | 2015 |
| Allowance for loan losses: | | |
| Loans individually evaluated for impairment | \$ 1,133 | \$ 1,594 |
| Loans collectively evaluated for impairment | 7,771 | 6,997 |
| Ending Balance | \$ 8,904 | \$ 8,591 |

The general component of the Allowance covers loans that are collectively evaluated for impairment. The general component also includes loans that are not individually identified for impairment evaluation, as well as those loans that are individually evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for factors. These factors include consideration of the following: levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability and depth of lending management and other relevant staff, national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

The establishment of the Allowance involves a high degree of judgment and includes a level of imprecision given the difficulty of identifying all of the factors impacting loan repayment and the timing of when losses occur. Net loan charge-offs for 2016 resulted in a net recovery of \$0.01 million compared with a net recovery of \$0.2 million in the same period of 2015. Management believes losses are being recognized in our portfolio through charge-offs as they are confirmed.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Of the \$8.9 million allowance for loan losses at December 31, 2016, \$5.2 million, or 58.43%, was allocated to commercial real estate loans. Management monitors these collateral dependent real estate loans periodically to analyze the adequacy of the cash flows to support the debt levels and obtains updated appraisals to determine the collateral's fair value for impairment analysis.

Management continues to diligently monitor the loan portfolio, paying particular attention to borrowers with land development, residential and commercial real estate, and commercial development exposures. Should the economic climate deteriorate from current levels, more borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise, potentially requiring increases in the provision for loan losses. Management believes that the allowance for loan losses at December 31, 2016 was adequate to absorb probable incurred credit losses inherent in the loan portfolio.

The following table presents a ratio analysis of the Company's allowance for loan losses:

ALLOWANCE FOR LOAN LOSS RATIOS

| | Years Ended December 31, | | | |
|--|--------------------------|----------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 |
| Net loan charge-offs to total average loans ⁽¹⁾ | NM | (0.04)% | 1.90 % | 1.92 % |
| Provision for loan losses to average loans | 0.05 | 0.06 | 1.26 | 0.61 |
| Allowance for loan losses to total end of period loans | 1.30 | 1.33 | 1.44 | 2.06 |
| Allowance for loan losses to total nonperforming loans | 545.59 | 143.02 | 102.99 | 40.06 |

(1) (NM) Not meaningful.

Securities. The primary strategic objective of the Company's \$165.9 million securities - available-for-sale from December 31, 2016, which excludes restricted securities, is to minimize interest rate risk, maintain sufficient liquidity, and maximize return. In managing the securities portfolio, the Company minimizes any credit risk and avoids investments in sophisticated and complex investment products. The portfolio includes several callable agency debentures, adjustable rate mortgage pass-throughs, municipal bonds and collateralized mortgage obligations. Collateralized mortgage obligations currently owned are guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Neither the Company nor the Bank hold any securities containing sub-prime mortgages or Fannie Mae or Freddie Mac equities. The Company does not have any securities classified as trading or held-to-maturity.

The Company's financial planning anticipates income streams generated by the securities portfolio based on normal maturity and reinvestment. Securities classified as available-for-sale, carried at fair value, were \$165.9 million at December 31, 2016 compared to \$171.4 million at December 31, 2015. The Company also holds Federal Reserve Board and Federal Home Loan Bank stock which are classified as restricted securities of \$9.9 million at December 31, 2016 and \$9.1 million at December 31, 2015.

Deposits. Deposits are attracted through the offering of a broad variety of deposit instruments, including checking accounts, money market accounts, regular savings accounts, term certificate accounts (including "jumbo" certificates in denominations of \$100,000 or more), and retirement savings plans. The Company's average balance of total deposits was \$735.5 million for 2016, representing an increase of \$28.5 million or 4.03% compared with the average balance of total deposits for 2015 of \$707.0 million as organic deposits grew and brokered deposit relationships were established to replace the \$51.7 million of deposits sold as part of the branch sales during the year.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The following table sets forth certain information regarding the Bank's average deposits:

| | 2016 | | 2015 | | | |
|---------------------------|------------|----------|---------|------------|----------|---------|
| | Average | % of | Average | Average | % of | Average |
| | Amount | Total | Rate | Amount | Total | Rate |
| | | | Paid | | | Paid |
| Demand deposit accounts: | | | | | | |
| Interest bearing | \$ 130,262 | 17.71 % | 0.09 % | \$ 119,202 | 16.86 % | 0.07 % |
| Non-interest bearing | 154,183 | 20.96 | — | 150,460 | 21.29 | — |
| Money market accounts | 121,617 | 16.54 | 0.24 | 118,711 | 16.79 | 0.18 |
| Savings accounts | 124,480 | 16.92 | 0.01 | 123,233 | 17.43 | 0.01 |
| Time, less than \$100,000 | 100,297 | 13.64 | 0.21 | 123,097 | 17.41 | 0.23 |
| Time, \$100,000 or more | 104,650 | 14.23 | 0.70 | 72,261 | 10.22 | 0.88 |
| | \$ 735,489 | 100.00 % | 0.18 % | \$ 706,964 | 100.00 % | 0.17 % |

For the year ended December 31, 2016, average time deposits over \$100,000 represented 14.23% of total average deposits, compared with 10.22% of total average deposits for the year ended December 31, 2015. The Company's large denomination time deposits are generally from customers within the local market areas and provide a greater degree of stability than is typically associated with brokered deposit customers with limited business relationships.

The following table sets forth the remaining maturities for time deposits of \$250,000 or more at December 31, 2016:

TIME DEPOSITS OF \$250,000 OR MORE

Maturity period:

| | |
|--------------------------------------|----------|
| Three months or less | \$38,587 |
| Over three months through six months | 8,035 |
| Over six months through one year | 8,023 |
| Over one year | 8,960 |
| Total | \$63,605 |

Brokered deposits account for \$44.2 million of the total from the table above and maturities at December 31, 2016 are as follows:

**BROKERED TIME DEPOSITS OF \$100,000
OR MORE**

Maturity period:

| | |
|--------------------------------------|----------|
| Three months or less | \$30,000 |
| Over three months through six months | 5,297 |
| Over six months through one year | 5,000 |
| Over one year | 3,924 |
| Total | \$44,221 |

CENTRUE FINANCIAL CORPORATION
 PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Return on Equity and Assets

The following table presents various ratios for the Company:

RETURN ON EQUITY AND ASSETS

| | Years Ended | |
|----------------------------------|--------------|--------|
| | December 31, | |
| | 2016 | 2015 |
| Return on average assets | 0.64 % | 4.79 % |
| Return on average equity | 5.09 | 60.29 |
| Average equity to average assets | 12.61 | 7.94 |

Liquidity

The Company manages its liquidity position with the objective of maintaining sufficient funds to respond to the needs of depositors and borrowers and to take advantage of earnings enhancement opportunities. In addition to the normal inflow of funds from core-deposit growth together with repayments and maturities of loans and investments, the Company utilizes other short-term funding sources such as brokered time and non-maturing deposits, securities sold under agreements to repurchase, overnight federal funds purchased from correspondent banks and the acceptance of short-term deposits from public entities, and Federal Home Loan Bank advances.

The Company monitors and manages its liquidity position on several bases, which vary depending upon the time period. As the time period is expanded, other data is factored in, including estimated loan funding requirements, estimated loan payoffs, investment portfolio maturities or calls, and anticipated depository buildups or runoffs.

The Company classifies all of its securities as available-for-sale, thereby maintaining significant liquidity. The Company's liquidity position is further enhanced by structuring its loan portfolio interest payments as monthly and by the significant representation of retail credit and residential mortgage loans in the Company's loan portfolio, resulting in a steady stream of loan repayments. In managing its investment portfolio, the Company provides for staggered maturities so that cash flows are provided as such investments mature.

The Company's cash flows are comprised of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Cash flows provided by financing activities offset by cash flows used in operating activities and investing activities resulted in a net decrease in cash and cash equivalents of \$5.1 million from December 31, 2015 to December 31, 2016.

During 2016, the Company experienced a positive net cash flow of \$63.9 million in financing activities primarily due to the growth in deposits. In contrast, net cash outflows of \$79.7 million were used by investing activities due to the purchase of available for sale securities and an overall increase in net loans. Net cash provided by operating activities was \$10.7 million.

The Bank's securities portfolio, federal funds sold, and cash and due from bank deposit balances serve as the primary sources of liquidity for the Company. At December 31, 2016, 10.83% of the Bank's interest-bearing deposits were in the form of time deposits of \$100,000 and over. Management believes these deposits to be a stable source of funds. However, if a large number of these time deposits matured at approximately the same time and were not renewed, the Bank's liquidity could be adversely affected. Currently, the maturities of the large time deposits are spread throughout the year, with 60.67% maturing in the first quarter of 2017, 12.63% maturing in the second quarter of 2017, 12.61% maturing in the third and fourth quarter of 2017, and the remaining 14.09% maturing thereafter. The Bank monitors those maturities in an effort to minimize any adverse effect on liquidity.

At December 31, 2016, borrowings included \$10.0 million for Centrue Statutory Trust II. The principal source of debt service payments for this obligation is from the net proceeds of the Company's recent capital financing. Borrowings held at the Bank include \$85.0 million in FHLB advances and \$11.2 million in securities sold under agreements to repurchase; the debt service for the Bank's borrowings is provided by operating cash flows from the Bank.

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Contractual Obligations

The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company's contractual cash obligations and other commitments and off balance sheet instruments as of December 31, 2016:

| | Payments Due by Period | | | | Total |
|---|------------------------|-----------|-----------|---------------|-----------|
| | Within 1 Year | 1-3 Years | 4-5 Years | After 5 Years | |
| Contractual Obligations | | | | | |
| Certificates of deposit | \$162,545 | \$35,041 | \$3,586 | \$— | \$201,172 |
| Operating leases | 282 | 412 | 98 | — | 792 |
| Series B mandatory redeemable preferred stock | — | 268 | — | — | 268 |
| Subordinated debentures | — | — | — | 20,620 | 20,620 |
| FHLB advances | 60,000 | 16,000 | — | — | 76,000 |
| Total contractual cash obligations | \$222,827 | \$51,721 | \$3,684 | \$20,620 | \$298,852 |

Commitments, Contingencies, and Off-Balance Sheet Financial Instruments

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, often including obtaining collateral at exercise of the commitment. At December 31, 2016, the Company had \$124.1 million in outstanding loan commitments including outstanding commitments for various lines of credit and \$1.8 million of standby letters of credit. See [Note 15](#) of the Notes to the Consolidated Financial Statements for additional information on loan commitments and standby letters of credit.

Capital Resources

Stockholders' Equity

Stockholders' equity at December 31, 2016 was \$126.9 million, an increase of \$5.6 million from \$121.3 million at December 31, 2015. The change in stockholders' equity during 2016 was the result of net income partially offset by a decrease in accumulated other comprehensive income related to the unrealized losses on the securities portfolio. Average equity as a percentage of average assets was 12.61% at December 31, 2016 compared to 7.94% at December 31, 2015. Book value per common share equaled \$19.08 at December 31, 2016, an increase from \$18.21 reported at the end of 2015.

Regulatory Capital Measurements

The Company and the Bank ("Regulated Companies") are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary actions by these regulators that, if undertaken, could have a direct material effect on the Company's Consolidated Financial Statements. Under regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Regulated Companies must meet specific regulatory capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Their regulatory capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure regulatory capital adequacy require the Regulated Companies to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1 ("CET1") and Tier 1 capital to risk-weighted assets; and of Tier 1 Capital to average assets. Tier 1 Capital includes common stockholders' equity, qualifying preferred stock and Trust Preferred securities, less goodwill and certain other deductions (including the unrealized net gains and losses, after applicable taxes, on available-for-sale securities carried

at fair value). CET1 is a subset of Tier 1 capital and is limited to common equity (plus related surplus), retained earnings, accumulated other comprehensive income and certain other items. Other instruments that have historically qualified for Tier 1 treatment, including non-cumulative perpetual preferred stock, are consigned to a category known as Additional Tier 1 capital and must be phased out over a period of nine years beginning in 2014. The rules permit bank holding companies with less than \$15 billion in assets (such as us) to continue to include trust preferred securities and non-cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not CET1. Total Capital includes Tier 1

CENTRUE FINANCIAL CORPORATION
PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Capital plus preferred stock not qualifying as Tier 1 Capital, mandatory convertible debt, subordinated debt and the allowance for loan and lease losses, subject to limitations by the guidelines.

On July 2, 2013, the Federal Reserve Board and the FDIC approved rules that implement the "Basel III" regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The rules include a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the Tier 1 and Tier 2 risk-based capital requirements. The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers. Regulatory capital ratios shown for December 31, 2016 are in excess of the Basel III 2016 phase-in level in regards to the capital conservation buffer.

Basel III also introduced changes to risk-weightings and treatment of Accumulated Other Comprehensive Income (AOCI). In 2015, the Bank made a one-time available election to opt-out of the impact of certain unrealized capital gains and losses in AOCI being included in regulatory capital. There is no opportunity to change methodology in future periods.

On March 31, 2015, the Company completed a common stock offering and capital infusion into the Bank. See [Note 1](#) to the Audited Financial Statements for additional disclosure.

As reflected in the following table, Centrue Bank was considered "well-capitalized" under regulatory defined capital ratios as of December 31, 2016.

| | Actual | | To Be Adequately Capitalized | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|-----------|-------|------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2016 | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Centrue Financial | \$118,841 | 15.0% | N/A | N/A | N/A | N/A |
| Centrue Bank | 115,455 | 14.5 | 63,556 | 8.0 | 79,445 | 10.0 |
| Common equity tier I (to risk-weighted assets) | | | | | | |
| Centrue Financial | \$109,434 | 13.8 | N/A | N/A | N/A | N/A |
| Centrue Bank | 106,551 | 13.4 | 35,750 | 4.5 | 51,639 | 6.5 |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Centrue Financial | \$109,937 | 13.8 | N/A | N/A | N/A | N/A |
| Centrue Bank | 106,551 | 13.4 | 47,667 | 6.0 | 63,556 | 8.0 |
| Tier I leverage ratio (to average assets) | | | | | | |
| Centrue Financial | \$109,937 | 11.5 | N/A | N/A | N/A | N/A |
| Centrue Bank | 106,551 | 11.1 | 38,251 | 4.0 | 47,814 | 5.0 |

Impact of Inflation, Changing Prices, and Monetary Policies

The financial statements and related financial data concerning the Company have been prepared in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the

performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Interest rates are highly sensitive to many factors which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the Federal Reserve-Chicago.

Recent Accounting Developments

See Note 1 to the Consolidated Financial Statements for information concerning recent accounting developments.

CENTRUE FINANCIAL CORPORATION

PART II

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The discussion under the captions "Interest Rate Sensitivity Management" contained in Item 7 of the Form 10-K is incorporated herein by this reference.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

| | Page |
|--|-----------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>43</u> |
| <u>Consolidated Balance Sheets (December 31, 2016 and 2015)</u> | <u>44</u> |
| <u>Consolidated Statements of Income</u> (For the years ended December 31, 2016 and 2015) | <u>45</u> |
| <u>Consolidated Statements of Stockholders' Equity</u> (For the years ended December 31, 2016 and 2015) | <u>47</u> |
| <u>Consolidated Statements of Cash Flows</u> (For the years ended December 31, 2016 and 2015) | <u>48</u> |
| <u>Notes</u> | <u>50</u> |

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Centrue Financial Corporation
Ottawa, Illinois

We have audited the accompanying consolidated balance sheets of Centrue Financial Corporation as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, of stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

Oak Brook, Illinois
March 2, 2017

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015 (IN THOUSANDS, EXCEPT FOR PAR VALUE AND SHARE DATA)

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 22,507 | \$ 27,655 |
| Securities available-for-sale | 165,927 | 171,440 |
| Restricted securities | 9,860 | 9,116 |
| Loans held for sale | — | 735 |
| Loans, net of allowance for loan loss: 2016 - \$8,904; 2015 - \$8,591 | 676,871 | 624,956 |
| Branch assets held for sale | — | 16,673 |
| Bank-owned life insurance | 35,986 | 35,103 |
| Mortgage servicing rights | 2,033 | 2,129 |
| Premises and equipment, net | 16,371 | 16,852 |
| Intangible assets, net | — | 880 |
| Other real estate owned, net | 5,042 | 8,401 |
| Deferred tax assets, net | 35,035 | 38,180 |
| Other assets | 8,147 | 9,098 |
| Total assets | \$ 977,779 | \$ 961,218 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing | \$ 152,524 | \$ 164,137 |
| Interest-bearing | 587,522 | 554,367 |
| Total deposits | 740,046 | 718,504 |
| Federal funds purchased and securities sold under agreements to repurchase | 11,168 | 18,730 |
| Federal Home Loan Bank advances | 85,000 | 76,000 |
| Series B mandatory redeemable preferred stock | 209 | 268 |
| Subordinated debentures | 10,310 | 20,620 |
| Other liabilities | 4,117 | 5,815 |
| Total liabilities | 850,850 | 839,937 |
| Commitments and contingent liabilities | — | — |
| Stockholders' equity | | |
| Series D Fixed Rate, Non-Cumulative Perpetual Preferred Stock, 2,636 shares authorized and issued 2016 and 2015; aggregate liquidation preference of \$2,636 | 2,636 | 2,636 |
| Common stock, \$0.01 par value; 215,000,000 shares authorized; 6,581,544 shares issued at December 31, 2016 and December 31, 2015 | 66 | 66 |
| Surplus | 140,664 | 140,609 |
| Retained earnings (deficit) | 3,029 | (2,958) |
| Accumulated other comprehensive loss | (3,340) | (2,946) |
| | 143,055 | 137,407 |
| Treasury stock, at cost, 67,850 shares at December 31, 2016 and December 31, 2015 ⁽¹⁾ | (16,126) | (16,126) |
| Total stockholders' equity | 126,929 | 121,281 |

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 977,779 | \$ 961,218 |
|--|------------|------------|

(1) Share and per share amounts have been adjusted to reflect the Company's 1:30 reverse stock split effective May 29, 2015.

See Accompanying Notes to Consolidated Financial Statements

44

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

| | 2016 | 2015 |
|--|----------|----------|
| Interest income | | |
| Loans | \$28,558 | \$25,619 |
| Securities | | |
| Taxable | 2,905 | 2,887 |
| Exempt from federal income taxes | 91 | 164 |
| Federal funds sold and other | 134 | 85 |
| Total interest income | 31,688 | 28,755 |
| Interest expense | | |
| Deposits | 1,357 | 1,227 |
| Federal funds purchased and securities sold under agreements to repurchase | 37 | 50 |
| Federal Home Loan Bank advances | 746 | 529 |
| Series B mandatory redeemable preferred stock | 14 | 16 |
| Subordinated debentures | 548 | 545 |
| Notes payable | — | 84 |
| Total interest expense | 2,702 | 2,451 |
| Net interest income | 28,986 | 26,304 |
| Provision for loan losses | 300 | 375 |
| Net interest income after provision for loan losses | 28,686 | 25,929 |
| Noninterest income | | |
| Service charges | 3,927 | 4,051 |
| Mortgage banking income | 1,175 | 1,240 |
| Electronic banking services | 2,536 | 2,545 |
| Bank-owned life insurance | 883 | 909 |
| Securities gains, net | 142 | 339 |
| Income from real estate | 330 | 619 |
| Gain on sale of OREO | 130 | 161 |
| Gain on sale of branches | 1,877 | — |
| Gain on sale of other assets | 102 | — |
| Gain on extinguishment of debt | 1,000 | 1,750 |
| Other income | 644 | 814 |
| | 12,746 | 12,428 |

(Continued)

45

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

| | 2016 | 2015 |
|--|---------|----------|
| Noninterest expense | | |
| Salaries and employee benefits | 16,748 | 16,805 |
| Occupancy, net | 2,679 | 2,840 |
| Furniture and equipment | 1,093 | 1,028 |
| Marketing | 244 | 378 |
| Supplies and printing | 228 | 222 |
| Telephone | 831 | 816 |
| Data processing | 1,809 | 1,661 |
| FDIC insurance | 450 | 1,166 |
| Loan processing and collection costs | 390 | 705 |
| OREO carrying costs | 473 | 799 |
| OREO valuation adjustment | 137 | 291 |
| Amortization of intangible assets | 880 | 951 |
| Other expenses | 5,552 | 5,577 |
| | 31,514 | 33,239 |
| Income before income taxes | \$9,918 | \$5,118 |
| Income tax expense (benefit) | 3,602 | (37,484) |
| Net income | \$6,316 | \$42,602 |
| Preferred stock dividends | 329 | 1,484 |
| Discount on redemption of preferred stock | — | (13,668) |
| Net income for common stockholders | \$5,987 | \$54,786 |
| Basic earnings per common share ⁽¹⁾ | \$0.92 | \$11.08 |
| Diluted earnings per common share ⁽¹⁾ | \$0.92 | \$11.08 |
| Total comprehensive income: | | |
| Net income | \$6,316 | \$42,602 |
| Change in unrealized gains (losses) on securities available for sale | (503) | (1,127) |
| Reclassification adjustment for losses (gains) recognized in income | (142) | (339) |
| Net unrealized gains (loss) | (645) | (1,466) |
| Tax effect | (251) | (571) |
| Other comprehensive income (loss) | (394) | (895) |
| Total comprehensive income | \$5,922 | \$41,707 |

(1) Share and per share amounts have been adjusted to reflect the Company's 1:30 reverse stock split effective May 29, 2015.

See Accompanying Notes to Consolidated Financial Statements

46

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

| | Series C Preferred Stock | Series D Preferred Stock | Common Stock | Surplus | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Treasury Stock ⁽¹⁾ | Total |
|---|--------------------------------|--------------------------------|-----------------|-----------|--|---|----------------------------------|-----------|
| Balance, January 1, 2015 | \$32,668 | \$ 2,636 | \$ 2 | \$78,955 | \$ (58,750) | \$ (2,051) | \$ (23,132) | \$30,328 |
| Net proceeds from common stock offering - see Note 1 | — | — | 64 | 68,184 | — | — | — | 68,248 |
| Preferred stock dividends | — | — | — | — | (478) | — | — | (478) |
| Deferred compensation distribution (1,003 shares) | — | — | — | (224) | — | — | 239 | 15 |
| Redemption of preferred stock - see Note 1 | (32,668) | — | — | — | 13,668 | — | — | (19,000) |
| Restricted stock awards (40,443 shares) | — | — | — | (6,306) | — | — | 6,767 | 461 |
| Net income | — | — | — | — | 42,602 | — | — | 42,602 |
| Total comprehensive income | — | — | — | — | — | (895) | — | (895) |
| Balance, December 31, 2015 ⁽¹⁾ | \$— | \$ 2,636 | \$ 66 | \$140,609 | \$ (2,958) | \$ (2,946) | \$ (16,126) | \$121,281 |
| Preferred stock dividends | — | — | — | — | (329) | — | — | (329) |
| Forfeited stock options | — | — | — | (69) | — | — | — | (69) |
| Restricted stock unit expense | — | — | — | 124 | — | — | — | 124 |
| Net income | — | — | — | — | 6,316 | — | — | 6,316 |
| Total comprehensive income | — | — | — | — | — | (394) | — | (394) |
| Balance, December 31, 2016 | \$— | \$ 2,636 | \$ 66 | \$140,664 | \$ 3,029 | \$ (3,340) | \$ (16,126) | \$126,929 |

(1) Share and per share amounts have been adjusted to reflect the Company's 1:30 reverse stock split effective May 29, 2015.

See Accompanying Notes to Consolidated Financial Statements

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

| | 2016 | 2015 |
|---|----------|-----------|
| Cash flows from operating activities | | |
| Net income | \$6,316 | \$42,602 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 1,115 | 1,199 |
| Amortization of intangible assets | 880 | 951 |
| Amortization of mortgage servicing rights, net | 304 | 341 |
| Amortization of bond premiums, net | 1,649 | 1,396 |
| Income tax valuation adjustment | — | (39,759) |
| Share based compensation | 124 | 461 |
| Provision for loan losses | 300 | 375 |
| Provision for deferred income taxes | 3,388 | 1,579 |
| Earnings on bank-owned life insurance | (883) | (909) |
| OREO valuation adjustment | 137 | 291 |
| Securities gains, net | (142) | (339) |
| Gain on sale of OREO | (130) | (161) |
| Gain on extinguishment of debt | (1,000) | (1,750) |
| Gain on sale of branches | (1,877) | — |
| Gain on sale of other assets | (102) | — |
| Proceeds from sales of loans held for sale | 28,939 | 32,631 |
| Origination of loans held for sale | (27,421) | (28,328) |
| Gain on sale of loans | (783) | (828) |
| Change in assets and liabilities | | |
| (Increase) decrease in other assets | 122 | 338 |
| Increase (decrease) in other liabilities | (281) | (3,624) |
| Net cash (used in) provided by operating activities | 10,655 | 6,466 |
| Cash flows from investing activities | | |
| Proceeds from paydowns of securities available for sale | 42,102 | 31,928 |
| Proceeds from calls and maturities of securities available for sale | 13,690 | 5,965 |
| Proceeds from sales of securities available for sale | 41,661 | 91,409 |
| Purchases of securities available for sale | (94,035) | (167,840) |
| Redemption of Federal Reserve Bank stock | 310 | 179 |
| Purchase of Federal Home Loan Bank stock | — | (2,028) |
| Purchase of Federal Reserve Bank stock | (1,054) | (1,165) |
| Net increase in loans | (53,865) | (95,774) |
| Purchase of premises and equipment | (549) | (574) |
| Proceeds from sales of OREO | 3,452 | 1,933 |
| Sale of branches, net of premium received | (31,444) | — |
| Net cash (used in) provided by investing activities | (79,732) | (135,967) |

(Continued)

48

CENTRUE FINANCIAL CORPORATION

PART II

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015 (IN THOUSANDS)

| | 2016 | 2015 |
|---|----------|-----------|
| Cash flows from financing activities | | |
| Net increase in deposits ⁽¹⁾ | 71,879 | 19,680 |
| Net decrease in federal funds purchased and securities sold under agreements to repurchase | (7,562) | (7,961) |
| Net proceeds of advances from the Federal Home Loan Bank | 9,000 | 56,000 |
| Repayment of notes payable | — | (8,500) |
| Repurchase of subordinated debentures | (9,000) | — |
| Net proceeds from the issuance of common stock | — | 68,248 |
| Redemption of Series B Mandatory Redeemable Preferred Stock | (59) | — |
| Redemption of Series C Cumulative Perpetual Preferred Stock | — | (19,000) |
| Dividends paid on preferred stock | (329) | (478) |
| Net cash provided by (used in) financing activities | 63,929 | 107,989 |
| Net increase (decrease) in cash and cash equivalents | (5,148) | (21,512) |
| Cash and cash equivalents | | |
| Beginning of period | 27,655 | 49,167 |
| End of period | \$22,507 | \$27,655 |
| Supplemental disclosures of cash flow information | | |
| Cash payments for | | |
| Interest | \$2,650 | \$7,358 |
| Income taxes | 270 | 121 |
| Transfers from loans to other real estate owned | 43 | 292 |
| Transfer from loan portfolio and sold in secondary market | — | 3,848 |
| Loan transfers to branch assets held for sale | 1,607 | 11,524 |
| Premises and equipment transferred to branch assets held for sale | — | 5,149 |

⁽¹⁾ Deposits impacted by branch sales during 2016. See Note 19 for additional information.

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Note 1. Summary of Significant Accounting Policies

Centrue Financial Corporation is a bank holding company organized under the laws of the State of Delaware. When we use the terms “Centrue,” the “Company,” “we,” “us,” and “our,” we mean Centrue Financial Corporation, a Delaware Corporation, and its consolidated subsidiary. When we use the term the “Bank,” we are referring to our wholly owned banking subsidiary, Centrue Bank. The Company and the Bank provide a full range of banking services to individual and corporate customers located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area. These services include demand, time, and savings deposits; business and consumer lending; and mortgage banking. The Company is subject to competition from other financial institutions and nonfinancial institutions providing financial services. Additionally, the Company and the Bank are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of the Company and its subsidiary after elimination of all significant intercompany accounts and transactions.

Use of Estimates

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Presentation

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America. The Company's December 31, 2016 and 2015 financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature.

Reverse Stock Split

Common shares and per share amounts for all periods shown have been restated to reflect the impact of the 1:30 reverse stock split the Company completed effective May 29, 2015.

Cash flows

Cash and cash equivalents includes cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, repurchase agreements, FHLB advances and federal funds purchased.

Securities

Available-for-sale. Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related deferred income taxes, recorded in stockholders' equity as a separate component of other comprehensive income. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

Purchases and sales of securities are recognized on a trade date basis. Realized securities gains or losses are reported in securities gains (losses), net in the Consolidated Statement of Income. The cost of securities sold is based on the specific identification method. On a quarterly basis, the Company makes an assessment to determine whether there have been any events or circumstances to indicate that a security for which there is an unrealized loss is impaired on an other-than-temporary (“OTTI”) basis. In evaluating other-than-temporary impairment, the Company considers many factors including the severity and duration of the impairment; the financial condition and near-term prospects of the

issuer, which for debt securities considers external credit ratings and recent downgrades; whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. Securities for which there is an unrealized loss that is deemed to be OTTI are written down to fair value with the write-down recorded as a realized loss and included in net impairment on securities, but only to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income unless management intends to sell the security or believes it is more likely than not that it will be required to sell the security prior to full recovery.

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Interest income is reported net of amortization of premiums and accretion of discounts. Amortization of purchase premium or discount is included in interest income. Premiums and discounts on securities are amortized over the level-yield method without anticipating prepayments except for mortgage backed securities where prepayments are anticipated.

Restricted Securities. Federal Home Loan Bank stock and Federal Reserve Bank stock are carried at cost and are included in restricted stock. The Corporation is required to maintain these equity securities as a member of both the Federal Home Loan Bank and the Federal Reserve System, and in amounts as required by these institutions. These equity securities are “restricted” in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other tradable equity securities and no impairment has been recorded during 2016 and 2015. Both cash and stock dividends are reported as income.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are sold with either servicing rights retained or servicing rights released. When retaining the servicing rights, the carrying value of mortgage loans sold is reduced by the cost allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. When selling service released, the gain or loss is determined by comparing the selling price to the value of the mortgage sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding; net of purchase premiums and discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income on loans is accrued based on principal amounts outstanding. Loan and lease origination fees, fees for commitments that are expected to be exercised and certain direct loan origination costs are deferred and the net amount amortized over the estimated life of the related loans or commitments as a yield adjustment. Other credit-related fees are recognized as fee income when earned.

Nonaccrual Loans. Generally, commercial loans and loans secured by real estate are designated as nonaccrual: (a) when either principal or interest payments are 90 or more past due based on contractual terms unless the loan is sufficiently collateralized such that full repayment of both principal and interest is expected and is in the process of collection; or (b) when an individual analysis of a borrower’s creditworthiness indicates a credit should be placed on nonaccrual status. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Future interest income may only be recorded on a cash basis after recovery of principal is reasonably assured. Nonaccrual loans are returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer doubt as to such collectability.

Charged-Off Loans. Commercial loans and loans secured by real estate are generally charged-off when deemed uncollectible. A loss is recorded at that time if the net realizable value of the real estate can be quantified and it is less than the associated principal and interest. Consumer loans that are not secured by real estate are subject to mandatory charge-off at a specified delinquency date and are usually not classified as non-accrual prior to being charged-off. Consumer loans, which include installment, automobile, and single payment loans are generally charged-off in full no later than the end of the month in which the loan becomes 120 days past due.

90-Day Past Due Loans. 90 days or more past due loans are loans for which principal or interest payments become 90 days or more past due but that still accrue interest since they are loans that are well secured and in the process of collection.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. Credit exposures deemed to be uncollectible are charged-off against the allowance, while recoveries of amounts previously charged-off are credited to the allowance. Management estimates the allowance balance required using past

loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Additions to the allowance for loan losses are charged to operating expense through the provision for loan losses. The amount charged to operating expense in any given year is dependent upon a number of factors including historic loan growth and changes in the composition of the loan portfolio, net charge-off levels, and the Company's assessment of the allowance for loan losses.

The allowance for loan losses consists of specific and general components. The specific component is established for expected losses on individual loans classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all contractual principal and interest due according to the terms of the loan

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the value of the underlying collateral. The Company evaluates the collectability of both principal and interest when assessing the need for loss accrual.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The specific reserves component of the allowance for loan losses is based on a regular analysis of impaired loans exceeding a fixed dollar amount where the internal credit rating is at or below a predetermined classification. If the estimated fair value of the loan is less than the recorded book value, a valuation allowance is established as a component of the allowance for loan losses.

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructured loan. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified may be excluded from restructured loans in the calendar years subsequent to the restructuring if they are in compliance with modified terms. Generally, a nonaccrual loan that is a troubled debt restructuring remains on nonaccrual until such time that repayment of the remaining principal and interest is not in doubt, and the borrower has a period of satisfactory repayment performance. Troubled debt restructurings (TDRs) are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company incorporates recent historical experience related to TDRs including the performance of TDRs that subsequently default into the calculation of the allowance by loan portfolio segment.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, as well as those loans that are individually evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

The establishment of the allowance for loan losses involves a high degree of judgment and includes a level of imprecision given the difficulty of identifying all of the factors impacting loan repayment and the timing of when losses actually occur.

Management considers the following when assessing the risk in the loan portfolio:

-

Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advances for equipment purchases or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans and periodically obtained during the life of the loan.

Agriculture and Agriculture Real Estate are subject to adverse market conditions including changes in local or foreign demand, weather related reduction in output, impact on storage, distribution or use. Increasing commodity prices leading to higher production costs, distribution or exporting.

Commercial real estate loans and Construction loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

1-4 family residential real estate and home equity loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Bank evaluates the borrower's repayment ability through a review of credit scores and debt to income ratios.

Appraisals are obtained to support the loan amount.

Consumer loans are subject to adverse employment conditions in the local economy which may lead to higher default rates. Decreases in the value of underlying collateral effect the amount collected if a borrower defaults.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Concentration of Credit Risk

The Bank generates loans throughout its foot print, with lending activities primarily focused on Cook, LaSalle, Kane, Kankakee, Kendall and Will Counties in Illinois and St. Louis County in Missouri. The Bank engages in all traditional aspects of community lending with focuses on: (i) owner occupied commercial real estate, (ii) investor commercial real estate, (iii) residential lending, (iv) commercial lending, (v) multifamily real estate, and (vi) agricultural lending.

Mortgage Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with noninterest expense in the other expense line on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income which is reported on the income statement as mortgage banking income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled \$459 thousand and \$492 thousand for years ended December 31, 2016 and 2015, respectively.

Premises and Equipment

Premises, furniture and equipment, and leasehold improvements are stated at cost less accumulated depreciation and land is carried at cost. Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the life of the asset or the lease term. Rates of depreciation are generally based on the following useful lives: buildings, 25 to 40 years; building improvements, typically 3 to 15 years but longer under limited circumstances; and furniture and equipment, 3 to 10 years. Gains and losses on dispositions are included in gains on sale of other assets in noninterest income on the Consolidated Statement of Income. Maintenance and repairs are charged to operating expenses as incurred, while

improvements that extend the useful life of assets are capitalized and depreciated over the estimated remaining life. Long-lived depreciable assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset based on a quoted market price, if applicable, or a discounted cash flow analysis. Impairment losses are recorded in other noninterest expense on the Consolidated Statement of Income.

Other Real Estate Owned

Other real estate owned includes properties acquired in partial or total satisfaction of certain loans. Properties are initially recorded at fair value, which represents the estimated sales price of the properties on the date acquired less estimated selling costs, establishing a new cost basis. Any write-downs in the carrying value of a property at the time of acquisition are charged against the allowance

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

for loan losses. Management periodically reviews the carrying value of other real estate owned. Any write-downs of the properties subsequent to acquisition, as well as gains or losses on disposition and income or expense from the operations of other real estate owned, are recognized in operating results in the period they are realized.

Earnings Per Share

Basic earnings per common share is net income for common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options using the treasury stock method. Earnings and dividends per share are restated for all stock splits through the date of issuance of the financial statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance (“BOLI”)

BOLI represents life insurance policies on the lives of certain current and former Company officers and directors for which the Company is the sole beneficiary. These policies are recorded as an asset on the Consolidated Balance Sheets at their cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The change in cash surrender value and insurance proceeds received are recorded as bank-owned life insurance income on the Consolidated Statement of Income in noninterest income. Management performs a monthly analysis to determine the current cash surrender value and adjusts the value accordingly.

Intangible Assets

Intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Identified intangible assets that have a finite useful life are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. Identified intangible assets that have a finite useful life are periodically reviewed to determine whether there have been any events or circumstances to indicate that the recorded amount is not recoverable from projected undiscounted net operating cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value, and, when appropriate, the amortization period is also reduced. Unamortized intangible assets associated with disposed assets are included in the determination of gain or loss on the sale of the disposed assets.

Intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch company acquisitions. They are initially measured at fair value and then are amortized over ten years using an accelerated method. Management reviews intangible assets at least annually for impairment and any such impairment will be recognized in the period identified. During 2016, the Company's core deposit intangible became fully amortized.

Repurchase agreements

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives.

Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its

commitments to fund the loans. Changes in the fair values of these derivatives are included in net gains on sales of loans.

Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and in Illinois and Missouri. The provision for income taxes is based on income in the financial statements, rather than amounts reported on the Company's income tax return. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur. The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other expense.

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established for any deferred tax asset for which recovery or settlement is unlikely. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of the stock options, while the market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. See [Note 4](#) for additional information.

Stockholders’ Equity

Capital Event

On March 31, 2015, the Company completed the issuance of \$76.0 million of new common stock in a private placement offering, \$68.2 million of net proceeds after issuance and registration costs of \$7.8 million. A total of 6.3 million shares were sold in the offering at a price of \$12.00 per share. In conjunction with the stock offering the Company used the proceeds in part to pay \$4.9 million in accrued but unpaid interest on its subordinated debentures, redeemed all \$32.7 million of Series C Preferred Stock for \$19.0 million, settled \$10.3 million in notes payable with another financial institution for \$8.5 million and made a \$36.0 million capital contribution into Centrue Bank. The remaining proceeds will be used for general corporate purposes.

Preferred Stock

The Company’s Certificate of Incorporation authorizes its board of directors to fix or alter the rights, preferences, privileges, and restrictions of 200,000 shares of preferred stock.

The Company has the following classes of preferred stock issued or authorized:

Series B Mandatory Redeemable Preferred Stock: The Company has authorized 1,092 shares of Series B Mandatory Redeemable Preferred Stock. There were 209 shares of Series B Mandatory Redeemable Preferred Stock issued and outstanding at December 31, 2016 and 268 shares issued and outstanding at December 31, 2015 which are shown in other liabilities. Preferential cumulative cash dividends are payable quarterly at an annual rate of \$60.00 per share. Dividends accrue on each share of Series B Preferred Stock from the date of issuance and from day to day, thereafter, whether or not earned or declared.

Each original holder of Series B Preferred Stock (or upon such holder’s death, their executor or personal representatives) will have the option, exercisable at their sole discretion, to sell, and the Company be obligated to redeem such holder’s shares of Series B Preferred Stock. The per share price payable by the Company for such shares of Series B Preferred Stock will be equal to \$1,000 per share, plus any accrued but unpaid dividends. Upon dissolution, wind up, or liquidation of the Company, voluntary or otherwise, holders of Series B Preferred Stock will

be entitled to receive, out of the assets of the Company available for distribution to stockholders, the amount of \$1,000 per share, plus any accrued but unpaid dividends, before any payment or distribution may be made on shares of common stock or any other securities issued by the Company that rank junior to the Series B Preferred Stock. There were no dividends in arrears at December 31, 2016 or December 31, 2015.

Series C Fixed Rate Cumulative Perpetual Preferred Stock: The Company has no Series C Fixed Rate Cumulative Perpetual Preferred Stock authorized, issued and outstanding or dividend in arrears at December 31, 2016 or December 31, 2015. On March 31, 2015 the Company redeemed all 32,668 shares outstanding of Series C Fixed Rate Cumulative Perpetual Preferred Stock and dividends in arrears for \$19.0 million as part of its capital event.

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Series D Fixed Rate Non-Voting Non-Cumulative Preferred Stock (“Series D”): The Company authorized and issued 2,636 shares of Series D preferred stock with a liquidation preference of \$1,000 per share during 2014. The stock pays non-cumulative dividends of 12.5% per annum.

Dividend Restrictions

Banking regulations require the maintenance of certain regulatory capital levels and may limit the amount of dividends that may be paid by the subsidiary bank to the holding company or by the holding company to stockholders.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Management does not believe there now are such matters that will have a material effect on the financial statements.

Comprehensive Income

Comprehensive income is the total of reported net income and all other revenues, expenses, gains, and losses that bypass reported net income under GAAP. As of December 31, 2016, the Company included unrealized gains or losses on securities available-for-sale in other comprehensive income.

Treasury Stock

Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders’ equity in the Consolidated Balance Sheets. Treasury stock issued is valued based on the “last in, first out” inventory method. The difference between the consideration received upon issuance and the carrying value is charged or credited to surplus.

Reclassifications

Certain prior year account balances, with no effect on net income or stockholders’ equity, have been reclassified to be consistent with the classifications adopted as of and for the period ended December 31, 2016.

Recent Accounting Pronouncements

In August 2016, the FASB issued amended guidance (ASU 2016-15) to clarify the classification of certain items with an entity’s statements of cash flows. These items include debt prepayment or extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of BOLI policies, distributions received from equity method investees, and beneficial interests in securitization transactions. The amended guidance also specifies how to address classification of cash receipts and payments that have aspects of more than one class of cash flows. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted, and is to be applied on a retrospective basis unless it is impractical to do so. Management is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

In June 2016 the FASB issued accounting standards update 2016-13 Financial Instruments - Credit Losses, commonly referred to as CECL. The provisions of the update eliminate the probable initial recognition threshold under current GAAP which requires reserves to be based on an incurred loss methodology. Under CECL reserves required for financial assets measured at amortized cost will reflect an organization’s estimate of all expected credit losses over the contractual term of the financial asset and thereby require the use of reasonable and supportable forecasts to estimate future credit losses. Because CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization’s reasonable and supportable estimate of expected credit losses extends to held to maturity (HTM) debt securities. Under the provisions of the update credit losses recognized on available for sale (AFS) debt securities will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans, with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Under current GAAP a purchased loan’s contractual balance is adjusted to fair value through a credit discount and no reserve is recorded on the purchased loan upon acquisition. Since under CECL reserves will be established for purchased loans at the time of acquisition the accounting for purchased loans is made more comparable to the accounting for originated loans. Finally, increased disclosure

requirements under CECL oblige organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. FASB expects that the evaluation of underwriting standards and credit quality trends by financial statement users will be enhanced with the additional vintage disclosures. For public business entities that are SEC filers the amendments of the update are effective beginning January 1, 2020. Management is in the process of evaluating the impact of CECL on the Company's financial position, results of operations and cash flows as well as its required disclosures.

In March 2016, the FASB issued an update (ASU No. 2016-09, Stock Compensation: Improvements to Employee Share-Based Payment Accounting.) The guidance in this update affects any entity that issues share-based payment awards to its employees

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

and is intended to simplify several aspects of the accounting for share-based payment awards including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In February 2016, the FASB issued an update (ASU No. 2016-02, Leases) creating FASB Topic 842, Leases. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring more disclosures related to leasing transactions. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact on the consolidated financial statements and related disclosures.

Note 2. Securities

The following table summarizes the fair value of available-for-sale securities, the related gross unrealized gains and losses recognized in accumulated other comprehensive income, and the amortized cost as follows:

| | December 31, 2016 | | | |
|--|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government agencies | \$12,680 | \$ — | \$ (609) | \$12,071 |
| States and political subdivisions | 9,127 | 2 | (64) | 9,065 |
| U.S. government agency residential mortgage-backed securities | 128,550 | 90 | (1,327) | 127,313 |
| Collateralized residential mortgage obligations: | | | | |
| Agency | 14,566 | — | (110) | 14,456 |
| Equity securities | 2,689 | 354 | (21) | 3,022 |
| | \$167,612 | \$ 446 | \$ (2,131) | \$165,927 |

| | December 31, 2015 | | | |
|--|-------------------|------------------------------|-------------------------------|---------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government agencies | \$14,629 | \$ 13 | \$ (35) | \$14,607 |
| States and political subdivisions | 10,190 | 16 | (25) | 10,181 |
| U.S. government agency residential mortgage-backed securities | 127,039 | 7 | (1,017) | 126,029 |
| Collateralized residential mortgage obligations: | | | | |
| Agency | 17,990 | — | (157) | 17,833 |
| Equity securities | 2,632 | 158 | — | 2,790 |
| | \$172,480 | \$ 194 | \$ (1,234) | \$171,440 |

The amounts below include the activity for available-for-sale securities related to sales, maturities and calls:

| | 2016 | 2015 |
|------------------------------------|----------|---------|
| Proceeds from calls and maturities | \$13,690 | \$5,965 |
| Proceeds from sales | 41,661 | 91,409 |
| Realized gains | 162 | 519 |
| Realized losses | (20) | (180) |

Net impairment loss recognized in earnings — —

The amortized cost and fair value of the investment securities portfolio are shown below by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

57

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| | December 31, 2016 | |
|---|-------------------|------------|
| | Amortized Cost | Fair Value |
| Due in one year or less | \$382 | \$382 |
| Due after one year through five years | 6,840 | 6,816 |
| Due after five years through ten years | 14,585 | 13,938 |
| Due after ten years | — | — |
| U.S. government agency residential mortgage-backed securities | 128,550 | 127,313 |
| Collateralized residential mortgage obligations | 14,566 | 14,456 |
| Equity | 2,689 | 3,022 |
| | \$167,612 | \$165,927 |

Securities with carrying values of approximately \$116.9 million at December 31, 2016 and \$114.9 million at December 31, 2015 were pledged to secure public deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law. At December 31, 2016 and 2015 there were no holdings of securities of any one issuer, other than the U.S. Government agencies, in an amount greater than 10% of stockholders' equity. The Company does not have any securities classified as trading or held-to-maturity.

Securities with unrealized losses not recognized in income are as follows presented by length of time individual securities have been in a continuous unrealized loss position:

| | December 31, 2016 | | | | | |
|---|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies | \$12,071 | \$(609) | \$— | \$— | \$12,071 | \$(609) |
| States and political subdivisions | \$5,691 | \$(64) | \$— | \$— | \$5,691 | \$(64) |
| U.S. government agency residential mortgage-backed securities | 92,400 | (1,178) | 9,379 | (149) | 101,779 | (1,327) |
| Collateralized residential mortgage obligations: Agency | 12,559 | (110) | — | — | 12,559 | (110) |
| Equity securities | 2,568 | (21) | — | — | 2,568 | (21) |
| Total temporarily impaired | \$125,289 | \$(1,982) | \$9,379 | \$(149) | \$134,668 | \$(2,131) |
| | December 31, 2015 | | | | | |
| | Less than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies | \$10,394 | \$(35) | \$— | \$— | \$10,394 | \$(35) |
| States and political subdivisions | 6,057 | (25) | — | — | 6,057 | (25) |
| U.S. government agency residential mortgage-backed securities | 124,411 | (1,017) | — | — | 124,411 | (1,017) |
| Collateralized residential mortgage obligations: Agency | 17,833 | (157) | — | — | 17,833 | (157) |
| Total temporarily impaired | \$158,695 | \$(1,234) | \$— | \$— | \$158,695 | \$(1,234) |

Unrealized losses on agency bonds have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher at the time of purchase), management does not intend to sell and it is not more

likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds(s) approach maturity.

58

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

As of December 31, 2016, the Company's security portfolio consisted of 66 securities, 49 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's mortgage-backed, as discussed below:

At December 31, 2016, 100.00% of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored enterprises and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not intend to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2016.

At December 31, 2015, the Company's security portfolio consisted of 59 securities, 46 of which were in an unrealized loss position. The 100.00% of unrealized losses are related to the Company's mortgage-backed securities and were issued by U.S. government-sponsored enterprises and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not intend to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

Note 3. Loans

The major classifications of loans follow:

| | Aggregate Principal Amount | |
|----------------------------------|-------------------------------|----------------------|
| | December 31, 2016 | December 31, 2015 |
| Commercial | \$80,287 | 67,360 |
| Agricultural & AGRE | 49,121 | 50,121 |
| Construction, land & development | 28,771 | 26,016 |
| Commercial RE | 439,326 | 391,918 |
| 1-4 family mortgages | 85,152 | 95,227 |
| Consumer | 3,118 | 2,905 |
| Total Loans | \$685,775 | 633,547 |
| Allowance for loan losses | (8,904) | (8,591) |
| Loans, net | \$676,871 | 624,956 |

The Company sold three branches during 2016. Loans totaling \$11.5 million had been identified to be included in this sale and had been excluded from the December 31, 2015 amounts in the table above. See [Note 19](#) for further information.

The credit quality indicator utilized by the Company to internally analyze the loan portfolio is the internal risk rating. Internal risk ratings of 0 to 5 are considered pass credits, a risk rating of a 6 is special mention, a risk rating of a 7 is substandard, and a risk rating of an 8 is doubtful. Loans classified as pass credits have no well defined weaknesses and are performing as agreed. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are

characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the commercial loan portfolio by internal risk rating:

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

December 31, 2016

| Internal Risk Rating | Commercial | | | | Commercial Real Estate | | Total |
|----------------------|------------|-----------------|---------------------|----------------------------------|------------------------|--------------------|-----------|
| | Closed-end | Lines of Credit | Agriculture & AG RE | Construction, Land & Development | Owner-Occupied | Non-Owner Occupied | |
| Pass | \$24,984 | \$53,256 | \$ 49,121 | \$ 28,652 | \$194,458 | \$ 236,423 | \$586,894 |
| Special Mention | 687 | 764 | — | — | 1,390 | 3,824 | 6,665 |
| Substandard | 175 | 421 | — | 119 | 151 | 3,080 | 3,946 |
| Doubtful | — | — | — | — | — | — | — |
| Total | \$25,846 | \$54,441 | \$ 49,121 | \$ 28,771 | \$195,999 | \$ 243,327 | \$597,505 |

December 31, 2015

| Internal Risk Rating | Commercial | | | | Commercial Real Estate | | Total |
|----------------------|------------|-----------------|---------------------|----------------------------------|------------------------|--------------------|-----------|
| | Closed-end | Lines of Credit | Agriculture & AG RE | Construction, Land & Development | Owner-Occupied | Non-Owner Occupied | |
| Pass | \$24,303 | \$42,374 | \$ 50,121 | \$ 25,825 | \$164,538 | \$ 203,679 | \$510,840 |
| Special Mention | 304 | 250 | — | 64 | 7,701 | 11,512 | 19,831 |
| Substandard | 129 | — | — | 127 | 412 | 4,076 | 4,744 |
| Doubtful | — | — | — | — | — | — | — |
| Total | \$24,736 | \$42,624 | \$ 50,121 | \$ 26,016 | \$172,651 | \$ 219,267 | \$535,415 |

The following table presents the retail residential loan portfolio by internal risk rating:

| | Residential -- 1-4 family | | |
|-------------------|---------------------------|----------------------------|----------|
| | Senior Lien | Jr. Lien & Lines of Credit | Total |
| December 31, 2016 | | | |
| Unrated | \$42,772 | \$37,561 | \$80,333 |
| Special mention | 89 | 13 | 102 |
| Substandard | 3,969 | 748 | 4,717 |
| Doubtful | — | — | — |
| Total | \$46,830 | \$38,322 | \$85,152 |

| | Residential -- 1-4 family | | |
|-------------------|---------------------------|----------------------------|----------|
| | Senior Lien | Jr. Lien & Lines of Credit | Total |
| December 31, 2015 | | | |
| Unrated | \$48,319 | \$41,380 | \$89,699 |
| Special mention | 4,011 | 168 | 4,179 |
| Substandard | 1,036 | 313 | 1,349 |

| | | | |
|----------|----------|----------|----------|
| Doubtful | — | — | — |
| Total | \$53,366 | \$41,861 | \$95,227 |

60

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The retail residential loan portfolio is generally unrated. Delinquency is a typical factor in adversely risk rating a credit to a special mention or substandard.

An analysis of activity in the allowance for loan losses follows:

| | Commercial | Agriculture & AG RE | Construction, Land & Development | Commercial RE | 1-4 Family Residential | Consumer | Total |
|-------------------|------------|------------------------|--|------------------|---------------------------|----------|----------|
| December 31, 2016 | | | | | | | |
| Beginning Balance | \$ 648 | \$ 97 | \$ 523 | \$ 5,681 | \$ 1,628 | \$ 14 | \$8,591 |
| Charge-offs | (38) | — | — | (754) | (237) | (4) | (1,033) |
| Recoveries | 252 | 86 | 32 | 540 | 133 | 3 | 1,046 |
| Provision | 369 | (63) | 90 | (299) | 212 | (9) | 300 |
| Ending Balance | \$ 1,231 | \$ 120 | \$ 645 | \$ 5,168 | \$ 1,736 | \$ 4 | \$8,904 |

| | Commercial | Agriculture & AG RE | Construction, Land & Development | Commercial RE | 1-4 Family Residential | Consumer | Total |
|-------------------|------------|------------------------|--|------------------|---------------------------|----------|----------|
| December 31, 2015 | | | | | | | |
| Beginning Balance | \$ 1,117 | \$ 69 | \$ 711 | \$ 3,999 | \$ 2,075 | \$ 10 | \$7,981 |
| Charge-offs | (384) | — | (4) | (702) | (667) | (6) | (1,763) |
| Recoveries | 197 | 3 | 52 | 1,663 | 52 | 31 | 1,998 |
| Provision | (282) | 25 | (236) | 721 | 168 | (21) | 375 |
| Ending Balance | \$ 648 | \$ 97 | \$ 523 | \$ 5,681 | \$ 1,628 | \$ 14 | \$8,591 |

The following is an analysis on the balance in the allowance for loan losses and the recorded investment in impaired loans by portfolio segment based on impairment method as of December 31, 2016 and December 31, 2015:

| December 31, 2016 | Commercial | Agriculture & AG RE | Construction, Land & Development | Commercial RE | 1-4 Family Residential | Consumer | Total |
|---|------------|------------------------|--|------------------|------------------------------|----------|-----------|
| Allowance for loan losses: | | | | | | | |
| Loans individually evaluated for impairment | \$ 493 | \$ — | \$ 60 | \$ 92 | \$ 488 | \$ — | \$1,133 |
| Loans collectively evaluated for impairment | 738 | 120 | 585 | 5,076 | 1,248 | 4 | 7,771 |
| Total ending allowance balance: | \$ 1,231 | \$ 120 | \$ 645 | \$ 5,168 | \$ 1,736 | \$ 4 | \$8,904 |
| Loan balances: | | | | | | | |
| Loans individually evaluated for impairment | \$ 598 | \$ — | \$ 129 | \$ 451 | \$ 1,709 | \$ — | \$2,887 |
| Loans collectively evaluated for impairment | 79,689 | 49,121 | 28,642 | 438,875 | 83,443 | 3,118 | 682,888 |
| Loans with an allowance recorded: | \$ 80,287 | \$ 49,121 | \$ 28,771 | \$ 439,326 | \$ 85,152 | \$ 3,118 | \$685,775 |

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| December 31, 2015 | Commercial | Agriculture & AG RE | Construction, Land & Development | Commercial RE | 1-4 Family Residential | Consumer | Total |
|---|------------|------------------------|--|------------------|------------------------------|----------|------------|
| Allowance for loan losses: | | | | | | | |
| Loans individually evaluated for impairment | \$ 80 | \$ — | \$ 10 | \$ 1,178 | \$ 325 | \$ 1 | \$ 1,594 |
| Loans collectively evaluated for impairment | 568 | 97 | 513 | 4,503 | 1,303 | 13 | 6,997 |
| Total ending allowance balance: | \$ 648 | \$ 97 | \$ 523 | \$ 5,681 | \$ 1,628 | \$ 14 | \$ 8,591 |
| Loan balances: | | | | | | | |
| Loans individually evaluated for impairment | \$ 129 | \$ — | \$ 127 | \$ 4,488 | \$ 1,348 | \$ 1 | \$ 6,093 |
| Loans collectively evaluated for impairment | 67,231 | 50,121 | 25,889 | 387,430 | 93,879 | 2,904 | 627,454 |
| Loans with an allowance recorded: | \$ 67,360 | \$ 50,121 | \$ 26,016 | \$ 391,918 | \$ 95,227 | \$ 2,905 | \$ 633,547 |

Troubled Debt Restructurings:

The Company had troubled debt restructurings (“TDRs”) of \$0.15 million and \$0.24 million as of December 31, 2016 and December 31, 2015, respectively. Specific reserves were immaterial at December 31, 2016 and December 31, 2015. At December 31, 2016, nonaccrual TDR loans were \$0.13 million, as compared to \$0.24 million at December 31, 2015. At December 31, 2016 there were \$0.02 million of loans on accrual status, while there were none on accrual status at December 31, 2015. The Company had no commitments to lend additional amounts to a customer with an outstanding loan that is classified as TDR as of December 31, 2016 and December 31, 2015.

In the course of a year the terms of certain loans may be modified as troubled debt restructurings. The modification of the terms of such loans may include one or a combination of the following: a reduction of the stated interest rate of the loan to a below market rate or the payment modification to interest only. A modification involving a reduction of the stated interest rate of the loan would be for periods ranging from 6 months to 16 months. During the year ended December 31, 2016, there was one TDR loan added in the amount of \$0.02 million compared to the year ended December 31, 2015 in which three loans were added as TDRs in the amount of \$0.2 million.

The following tables present loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2016 and 2015:

| | For the Twelve Months Ended | |
|------------------------|-----------------------------|-------------------|
| | December 31, 2016 | |
| | Pre-Modification | Post-Modification |
| | Number of Loans | Investment |
| 1-4 family residential | | |
| Senior lien | 1 \$ 20 | \$ 20 |
| Total | 1 \$ 20 | \$ 20 |

The troubled debt restructurings described above did not have a material impact to the allowance for loan losses and did not result in any additional charge-off’s during the year ended December 31, 2016.

CENTRUE FINANCIAL CORPORATION
 PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| | For the Twelve Months Ended December 31, 2015 | | |
|------------------------|--|------------------------|------------------------|
| | Pre-Modification | Post-Modification | |
| | Number of Loans | Recorded Investment | Recorded Investment |
| 1-4 family residential | | | |
| Senior lien | 3 | \$ 241 | \$ 241 |
| Total | 3 | \$ 241 | \$ 241 |

The troubled debt restructurings described above did not have a material impact to the allowance for loan losses and did not result in any additional charge-off's during the year ended December 31, 2015.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In the years ended December 31, 2016 and December 31, 2015 there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification.

The Company evaluates loan modifications to determine if the modification constitutes a troubled debt restructure. A loan modification constitutes a troubled debt restructure if the borrower is experiencing financial difficulty and the Company grants a concession it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its loans with the Company's debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting guidelines. TDRs are separately identified for impairment disclosures. If a loan is considered to be collateral dependent loan, the TDR is reported, net, at the fair value of the collateral.

CENTRUE FINANCIAL CORPORATION
PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

The following tables present data on impaired loans:

| December 31, 2016 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|--------------------------------------|
| Loans with no related allowance recorded: | | | | | | |
| Commercial | | | | | | |
| Closed-end | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Line of credit | — | — | — | — | — | — |
| Agricultural & AG RE | — | — | — | 85 | — | — |
| Construction, land & development | 57 | 235 | — | 19 | — | — |
| CRE - all other | | | | | | |
| Owner occupied | 134 | 134 | — | 9 | 7 | 9 |
| Non-owner occupied | — | — | — | — | — | — |
| 1-4 family residential | | | | | | |
| Senior lien | 331 | 349 | — | 180 | — | — |
| Jr. lien & lines of credit | 433 | 433 | — | 116 | 7 | 7 |
| Consumer | — | — | — | — | — | — |
| Subtotal | 955 | 1,151 | — | 409 | 14 | 16 |
| Loans with an allowance recorded: | | | | | | |
| Commercial | | | | | | |
| Closed-end | \$ 175 | \$ 175 | \$ 110 | \$ 135 | \$ 4 | \$ 4 |
| Line of credit | 423 | 422 | 383 | 293 | 26 | 25 |
| Agricultural & AG RE | — | — | — | 80 | — | — |
| Construction, land & development | 72 | 72 | 60 | 84 | 4 | 1 |
| CRE - all other | | | | | | |
| Owner occupied | 17 | 17 | 17 | 313 | — | — |
| Non-owner occupied | 300 | 300 | 75 | 1,110 | — | — |
| 1-4 family residential | | | | | | |
| Senior lien | 629 | 629 | 298 | 862 | 19 | 19 |
| Jr. lien & lines of credit | 316 | 316 | 190 | 349 | 14 | 14 |
| Consumer | — | — | — | 1 | — | — |
| Subtotal | 1,932 | 1,931 | 1,133 | 3,227 | 67 | 63 |
| Total | \$ 2,887 | \$ 3,082 | \$ 1,133 | \$ 3,636 | \$ 81 | \$ 79 |

CENTRUE FINANCIAL CORPORATION

PART II: NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

| December 31, 2015 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|--------------------------------------|
| Loans with no related allowance recorded: | | | | | | |
| Commercial | | | | | | |
| Closed-end | \$ 2 | \$ 2 | \$ — | \$ 15 | \$ 1 | \$ 1 |
| Line of credit | — | — | — | — | — | — |
| Agricultural & AG RE | — | — | — | — | — | — |
| Construction, land & development | — | — | — | 299 | — | — |
| CRE - all other | | | | | | |
| Owner occupied | 6 | 6 | — | 78 | — | — |
| Non-owner occupied | — | — | — | — | — | — |
| 1-4 family residential | | | | | | |
| Senior lien | 176 | 176 | — | 277 | — | — |
| Jr. lien & lines of credit | 71 | 71 | — | 88 | 3 | 3 |
| Consumer | — | — | — | — | — | — |
| Subtotal | 255 | 255 | — | 757 | 4 | 4 |
| Loans with an allowance recorded: | | | | | | |
| Commercial | | | | | | |
| Closed-end | \$ 127 | \$ 127 | \$ 80 | \$ 199 | \$ 2 | \$ 2 |
| Line of credit | — | — | — | — | — | — |
| Agricultural & AG RE | — | — | — | — | — | — |
| Construction, land & development | 127 | 419 | 10 | 120 | — | — |
| CRE - all other | | | | | | |
| Owner occupied | 406 | 541 | 100 | | | |