

CENTRUE FINANCIAL CORP

Form 10-Q

May 10, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended March 31, 2017

Commission File Number: 0-28846

Centrue Financial Corporation

(Exact name of Registrant as specified in its charter)

Delaware

36-3145350

(State or other jurisdiction of incorporation or organization) (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)

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 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 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

Emerging growth company

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

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

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

Class Shares outstanding at May 10, 2017

Common Stock, Par Value \$0.01 6,513,694

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March 31, 2017

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CENTRUE FINANCIAL CORPORATION
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT FOR PAR VALUE AND SHARE DATA)

	March 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	\$31,237	\$ 22,507
Securities available-for-sale	156,302	165,927
Restricted securities	8,019	9,860
Loans, net of allowance for loan loss: 2017 - \$8,944; 2016 - \$8,904	679,148	676,871
Bank-owned life insurance	36,203	35,986
Mortgage servicing rights	1,993	2,033
Premises and equipment, net	16,150	16,371
Other real estate owned, net	4,911	5,042
Deferred tax assets, net	34,100	35,035
Other assets	7,688	8,147
Total assets	\$975,751	\$ 977,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest-bearing	\$152,196	\$ 152,524
Interest-bearing	576,293	587,522
Total deposits	728,489	740,046
Federal funds purchased and securities sold under agreements to repurchase	11,303	11,168
Federal Home Loan Bank advances	93,000	85,000
Series B mandatory redeemable preferred stock	209	209
Subordinated debentures	10,310	10,310
Other liabilities	4,037	4,117
Total liabilities	847,348	850,850
Commitments and contingent liabilities	—	—
Stockholders' equity		
Series D Fixed Rate, Non-Cumulative Perpetual Preferred Stock, 2,636 shares authorized and issued at March 31, 2017 and December 31, 2016; 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 March 31, 2017 and December 31, 2016	66	66
Surplus	140,711	140,664
Retained earnings	4,022	3,029
Accumulated other comprehensive loss	(2,906) (3,340
	144,529	143,055
Treasury stock, at cost, 67,850 shares at March 31, 2017 and December 31, 2016	(16,126) (16,126
Total stockholders' equity	128,403	126,929

Total liabilities and stockholders' equity	\$975,751	\$ 977,779
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See Accompanying Notes to Consolidated Financial Statements

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CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31, 2017 2016	
Interest income		
Loans	\$7,403	\$7,029
Securities		
Taxable	677	829
Exempt from federal income taxes	22	23
Federal funds sold and other	5	32
Total interest income	8,107	7,913
Interest expense		
Deposits	376	263
Federal funds purchased and securities sold under agreements to repurchase	7	12
Federal Home Loan Bank advances	227	230
Series B mandatory redeemable preferred stock	3	4
Subordinated debentures	95	142
Total interest expense	708	651
Net interest income	7,399	7,262
Provision for loan losses	—	300
Net interest income after provision for loan losses	7,399	6,962
Noninterest income		
Service charges	852	945
Mortgage banking income	248	200
Electronic banking services	610	633
Bank-owned life insurance	217	223
Securities gains, net	—	37
Income from real estate	69	110
Gain on sale of OREO	2	48
Other income	142	67
	2,140	2,263

CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2017	2016
Noninterest expense		
Salaries and employee benefits	4,278	4,304
Occupancy, net	632	680
Furniture and equipment	269	256
Marketing	37	35
Supplies and printing	45	58
Telephone	192	204
Data processing	471	423
FDIC insurance	77	157
Loan processing and collection costs	101	58
OREO carrying costs	93	91
OREO valuation adjustment	10	16
Amortization of intangible assets	—	238
Other expenses	1,606	1,346
	7,811	7,866
Income before income taxes	\$1,728	\$1,359
Income tax expense	669	441
Net income	\$1,059	\$918
Preferred stock dividends	82	82
Net income for common stockholders	\$977	\$836
Basic earnings per common share	\$0.15	\$0.13
Diluted earnings per common share	\$0.15	\$0.13
Total comprehensive income:		
Net income	\$1,059	\$918
Change in unrealized gains on securities available for sale	710	1,195
Reclassification adjustment for losses (gains) recognized in income	—	(37)
Net unrealized gains	710	1,158
Tax effect	276	451
Other comprehensive income	434	707
Total comprehensive income	\$1,493	\$1,625

See Accompanying Notes to Consolidated Financial Statements

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CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 (IN THOUSANDS)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net income	1,059	918
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	277	295
Amortization of intangible assets	—	238
Amortization of mortgage servicing rights, net	68	66
Amortization of bond premiums, net	403	304
Share based compensation	64	—
Provision for loan losses	—	300
Provision for deferred income taxes	659	441
Earnings on bank-owned life insurance	(217)	(223)
OREO valuation adjustment	10	16
Securities gains, net	—	(37)
Gain on sale of OREO	(2)	(48)
Proceeds from sales of loans held for sale	4,546	3,729
Origination of loans held for sale	(4,409)	(3,084)
Gain on sale of loans	(137)	(92)
Change in assets and liabilities		
Decrease (increase) in other assets	418	(84)
Decrease in other liabilities	(77)	(463)
Net cash provided by operating activities	2,662	2,276
Cash flows from investing activities		
Proceeds from paydowns of securities available for sale	9,945	7,112
Proceeds from calls and maturities of securities available for sale	—	115
Proceeds from sales of securities available for sale	—	5,016
Purchases of securities available for sale	—	(9,680)
Redemption of Federal Home Loan Bank stock	3,080	—
Purchase of Federal Home Loan Bank stock	(1,215)	—
Purchase of Federal Reserve Bank stock	(24)	(983)
Net increase in loans	(2,277)	(15,746)
Purchase of premises and equipment	(56)	(78)
Proceeds from sale of OREO	119	1,166
Net cash (used in) provided by investing activities	9,572	(13,078)

CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 (IN THOUSANDS)

	Three Months Ended March 31,	
	2017	2016
Cash flows from financing activities		
Net increase (decrease) in deposits	(11,557)	10,765
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	135	(3,157)
Net proceeds (repayments) of advances from the Federal Home Loan Bank	8,000	(1,000)
Dividends paid on preferred stock	(82)	(82)
Net cash (used in) provided by financing activities	(3,504)	6,526
Net decrease in cash and cash equivalents	8,730	(4,276)
Cash and cash equivalents		
Beginning of period	22,507	27,655
End of period	\$31,237	\$23,379
Supplemental disclosures of cash flow information		
Cash payments for		
Interest	\$835	\$692
Income taxes	—	57
Loan transfers from branch assets held for sale	—	(603)
Premises and equipment transferred from branch assets held for sale	—	(36)

CENTRUE FINANCIAL CORPORATION
NOTES TO UNAUDITED 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 and metropolitan St. Louis. 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.

On January 26, 2017, the Company announced the signing of a definitive agreement with Midland States Bancorp, Inc. (“Midland”) under which Midland will acquire Centrue for estimated total consideration of \$175.1 million, or \$26.75 per share of Centrue common stock. The transaction is expected to close in mid-2017, subject to regulatory approvals, the approval of Centrue's and Midland's shareholders and the satisfaction of customary closing conditions.

Basis of presentation

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. Material estimates which are particularly susceptible to significant change in the near term relate to the fair value of investment securities and other-than-temporary impairment of securities, the determination of the allowance for loan losses and valuation of other real estate owned.

For further information with respect to significant accounting policies followed by the Company in the preparation of its consolidated financial statements, refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The consolidated financial statements include the accounts of the Company and Centrue Bank. Intercompany balances and transactions have been eliminated in consolidation and certain 2016 amounts have been reclassified to conform to the 2017 presentation. The annualized results of operations during the three months ended March 31, 2017 are not necessarily indicative of the results expected for the year ending December 31, 2017. All financial information in the following tables is in thousands (000s), except share and per share data. In the opinion of management, all normal and recurring adjustments which are necessary to fairly present the results for the interim periods presented have been included.

Recent Accounting Pronouncements

The Company has elected to comply with new and amended accounting pronouncements in the same manner as a private company under its status as an emerging growth company, as such the effective dates presented below are the dates the accounting standards become effective for the Company.

In March 2017, the FASB amended existing guidance (ASU 2017-08) to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 with early adoption permitted. The amendments are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Management is currently in the process of evaluating the impact of the amended guidance on its Consolidated Financial Statements.

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 beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, 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.

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

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 the Company, the ASU on credit losses will take effect for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Management is in the process of developing an implementation plan for CECL and estimating the impact 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 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 annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. 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 beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. Management is currently evaluating the impact on the consolidated financial statements and related disclosures.

Note 2. Earnings Per Share

A reconciliation of the numerators and denominators for earnings per common share computations for the three months ended March 31, 2017 and 2016 is presented below. Options to purchase 332 and 1,992 shares of common stock were outstanding for March 31, 2017 and 2016, respectively; but were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price and, therefore, were anti-dilutive. Of the 33,321 shares of restricted stock units issued, 12,376 shares were considered dilutive for the three month period ended March 31, 2017.

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

	Three Months Ended March 31, 2017 2016	
Basic Earnings Per Common Share		
Net income	\$1,059	\$ 918
Preferred stock dividends	(82)	(82)
Net income for common shareholders	\$977	\$ 836
Weighted average common shares outstanding	6,513,694	6,513,694
Basic earnings per common share	\$0.15	\$ 0.13
Diluted Earnings Per Common Share		
Weighted average common shares outstanding	6,513,694	6,513,694
Add: dilutive effect of restricted stock units	12,376	—
Weighted average common and dilutive potential shares outstanding	6,526,070	6,513,694
Diluted earnings per common share	\$0.15	\$ 0.13

Note 3. Securities

The primary strategic objective related to the Company's securities portfolio is to assist with liquidity and interest rate risk management. The fair value of the securities classified as available-for-sale was \$156.3 million at March 31, 2017 compared to \$165.9 million at December 31, 2016. The carrying value of securities classified as restricted (Federal Reserve and Federal Home Loan Bank stock) was \$8.0 million at March 31, 2017 compared to \$9.9 million at December 31, 2016. The Company does not have any securities classified as trading or held-to-maturity. 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 at March 31, 2017 and December 31, 2016:

	March 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	\$12,680	\$ —	\$ (487)	\$12,193
States and political subdivisions	9,120	3	(25)	9,098
U.S. government agency residential mortgage-backed securities	119,082	134	(862)	118,354
Collateralized residential mortgage obligations:				
Agency	13,692	8	(73)	13,627
Equity securities	2,703	348	(21)	3,030
	\$157,277	\$ 493	\$ (1,468)	\$156,302

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

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

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

	Three Months Ended March 31, 2016
Proceeds from calls and maturities	\$—115
Proceeds from sales	—5,016
Realized gains	—37
Realized losses	—
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. Securities not due at a single maturity date and equity securities are shown separately.

	March 31, 2017	
	Amortized Cost	Fair Value
Due in one year or less	\$3,431	\$3,430
Due after one year through five years	3,784	3,776
Due after five years through ten years	14,585	14,085
Due after ten years	—	—
U.S. government agency residential mortgage-backed securities	119,082	118,354
Collateralized residential mortgage obligations	13,692	13,627
Equity	2,703	3,030
	\$157,277	\$156,302

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:

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

	March 31, 2017					
	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	\$12,193	\$(487)	\$—	\$—	\$12,193	\$(487)
States and political subdivisions	5,221	(25)	—	—	5,221	(25)
U.S. government agency residential mortgage-backed securities	75,122	(640)	17,367	(222)	92,489	(862)
Collateralized residential mortgage obligations: Agency	8,182	(73)	—	—	8,182	(73)
Equity securities	—	—	3,030	(21)	3,030	(21)
Total temporarily impaired	\$100,718	\$(1,225)	\$20,397	\$(243)	\$121,115	\$(1,468)
	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)

Unrealized losses associated with these securities are primarily due to changes in interest rates and market volatility, and the government agencies and government sponsored entities ("GSE") have not experienced significant adverse events that would call into question their ability to repay those debt obligations according to contractual terms. Further, because the Company does not have the intent to sell these bonds and it is more likely than not that it will not be required to sell the securities before their anticipated recovery of their amortized cost bases, the Company does not consider these securities to be other-than temporarily impaired as of March 31, 2017 or December 31, 2016.

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

Note 4. Loans

The major classifications of loans follow:

	Aggregate Principal Amount	
	March 31, 2017	December 31, 2016
Commercial	\$92,004	80,287
Agricultural & AG RE	45,283	49,121
Construction, land & development	25,994	28,771
Commercial RE	438,933	439,326
1-4 family mortgages	82,809	85,152
Consumer	3,069	3,118
Total Loans	\$688,092	685,775
Allowance for loan losses	(8,944)	(8,904)
Loans, net	\$679,148	676,871

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 material 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:

March 31, 2017

Internal Risk Rating	Commercial		Agriculture & AG RE	Construction, Land & Development	Commercial Real Estate		Total
	Closed-end	Lines of Credit			Owner- Occupied	Non-Owner Occupied	
Pass	\$26,521	\$63,072	\$ 45,283	\$ 25,901	\$187,274	\$ 243,071	\$591,122
Special Mention	674	764	—	—	3,532	1,839	6,809
Substandard	160	813	—	93	149	3,068	4,283
Doubtful	—	—	—	—	—	—	—
Total	\$27,355	\$64,649	\$ 45,283	\$ 25,994	\$190,955	\$ 247,978	\$602,214

CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED 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

The following table presents the Retail Residential Loan Portfolio by Internal Risk Rating:

	Residential -- 1-4 family		
	Senior Lien	Jr. Lien	Total
		& Lines of Credit	
March 31, 2017			
Unrated	\$41,704	\$36,478	\$78,182
Special mention	78	85	163
Substandard	3,990	474	4,464
Doubtful	—	—	—
Total	\$45,772	\$37,037	\$82,809

	Residential -- 1-4 family		
	Senior Lien	Jr. Lien	Total
		& Lines of Credit	
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

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 for the three months ended March 31, 2017 and 2016 follows:

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	Commercial	Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2017							
Beginning Balance	\$ 1,231	\$ 120	\$ 645	\$ 5,168	\$ 1,736	\$ 4	\$8,904
Charge-offs	—	—	—	—	(55)	—	(55)
Recoveries	32	—	4	54	5	—	95
Provision	233	(32)	(77)	(442)	320	(2)	—
Ending Balance	\$ 1,496	\$ 88	\$ 572	\$ 4,780	\$ 2,006	\$ 2	\$8,944

	Commercial	Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2016							
Beginning Balance	\$ 648	\$ 97	\$ 523	\$ 5,681	\$ 1,628	\$ 14	\$8,591
Charge-offs	—	—	—	(503)	(9)	(3)	(515)
Recoveries	44	54	19	445	36	—	598
Provision	60	(32)	(26)	(82)	387	(7)	300
Ending Balance	\$ 752	\$ 119	\$ 516	\$ 5,541	\$ 2,042	\$ 4	\$8,974

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 March 31, 2017 and December 31, 2016:

March 31, 2017	Commercial	Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
Allowance for loan losses:							
Loans individually evaluated for impairment	\$ 724	\$ —	\$ 59	\$ 575	\$ 1,184	\$ —	\$2,542
Loans collectively evaluated for impairment	772	88	513	4,205	822	2	6,402
Total allowance balance:	\$ 1,496	\$ 88	\$ 572	\$ 4,780	\$ 2,006	\$ 2	\$8,944
Loan balances:							
Loans individually evaluated for impairment	\$ 975	\$ —	\$ 103	\$ 3,230	\$ 4,550	\$ —	\$8,858
Loans collectively evaluated for impairment	91,029	45,283	25,891	435,703	78,259	3,069	679,234
Total loans balance:	\$ 92,004	\$ 45,283	\$ 25,994	\$ 438,933	\$ 82,809	\$ 3,069	\$688,092

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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 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
Total loans balance:	\$ 80,287	\$ 49,121	\$ 28,771	\$ 439,326	\$ 85,152	\$ 3,118	\$ 685,775

Troubled Debt Restructurings:

The Company had troubled debt restructurings (“TDRs”) of \$5.9 million and \$0.2 million as of March 31, 2017 and December 31, 2016, respectively. Specific reserves were \$1.3 million at March 31, 2017 and immaterial at December 31, 2016. At March 31, 2017 nonaccrual TDR loans were \$5.9 million and \$0.1 million at December 31, 2016. There were \$0.02 million of TDRs on accrual at March 31, 2017 and December 31, 2016. The Company had no commitments to lend additional amounts to a customer with an outstanding loan that is classified as TDR as of March 31, 2017 and December 31, 2016.

Over the course of a period, 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 three months ended March 31, 2017 there were \$5.8 million loans modified as troubled debt restructurings. There were no loans modified as troubled debt restructurings during the three months ended March 31, 2016.

The following table presents the loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2017:

	For the Three Months Ended March 31, 2017	
	Pre-Modification Number of Loans	Post-Modification Recorded Investment
CRE - all other		
Non-owner occupied	2 2,770	2,770
1-4 family residential		
Senior lien	1 3,011	3,011
Total	3 \$ 5,781	\$ 5,781

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. In the three months ended March 31, 2017 and the three months ended March 31, 2016 there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification.

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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 on the probability of default in the foreseeable future without the Company granting a 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.

The following tables present data on impaired loans:

March 31, 2017	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	\$ 10	\$ 10	\$ —	\$ 3	\$ —	\$ —
Line of credit	—	—	—	—	—	—
Agricultural & AG RE	—	—	—	—	—	—
Construction, land & development	32	209	—	28	—	—
CRE - all other						
Owner occupied	133	275	—	41	3	3
Non-owner occupied	—	—	—	—	—	—
1-4 family residential						
Senior lien	363	381	—	218	—	—
Jr. lien & lines of credit	270	270	—	166	1	1
Consumer	—	—	—	—	—	—
Subtotal	808	1,145	—	456	4	4
Loans with an allowance recorded:						
Commercial						
Closed-end	\$ 150	\$ 150	\$ 104	\$ 123	\$ —	\$ —
Line of credit	814	814	620	484	4	3
Agricultural & AG RE	—	—	—	—	—	—
Construction, land & development	72	72	59	70	1	—
CRE - all other						
Owner occupied	16	16	16	217	—	—
Non-owner occupied	3,081	3,080	559	989	36	22
1-4 family residential						
Senior lien	3,640	3,640	1,005	1,463	32	20
Jr. lien & lines of credit	277	277	179	330	3	3
Consumer	—	—	—	—	—	—
Subtotal	8,050	8,049	2,542	3,676	76	48
Total	\$ 8,858	\$ 9,194	\$ 2,542	\$ 4,132	\$ 80	\$ 52

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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

The Company determined that there were \$0.9 million of loans that were classified as impaired but were considered to be performing (i.e., loans which are accruing interest) loans at March 31, 2017 compared to \$1.3 million at December 31, 2016.

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The following table represents information related to loan portfolio aging:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days Past Due or Nonaccrual	Total Past Due	Current	Total Loans
March 31, 2017						
Commercial						
Closed-end	\$—	\$664	\$ 150	\$814	\$26,541	\$27,355
Line of credit	—	298	348	646	64,003	64,649
Agricultural & AG RE	—	—	—	—	45,283	45,283
Construction, land & development	181	—	32	213	25,781	25,994
CRE - all other						
Owner occupied	71	735	149	955	190,000	190,955
Non-owner occupied	645	—	2,770	3,415	244,563	247,978
1-4 family residential						
Senior lien	1,162	195	3,969	5,326	40,446	45,772
Jr. lien & lines of credit	169	56	546	771	36,266	37,037
Consumer	1	—	—	1	3,068	3,069
Total	\$2,229	\$1,948	\$ 7,964	\$12,141	\$675,951	\$688,092
December 31, 2016						
Commercial						
Closed-end	\$20	\$—	\$ 122	\$142	\$25,704	\$25,846
Line of credit	—	—	—	—	54,441	54,441
Agricultural & AG RE	—	—	—	—	49,121	49,121
Construction, land & development	133	—	57	190	28,581	28,771
CRE - all other						
Owner occupied	—	—	151	151	195,848	195,999
Non-owner occupied	588	—	—	588	242,739	243,327
1-4 family residential						
Senior lien	664	152	577	1,393	45,437	46,830
Jr. lien & lines of credit	432	19	705	1,156	37,166	38,322
Consumer	—	—	—	—	3,118	3,118
Total	\$1,837	\$171	\$ 1,612	\$3,620	\$682,155	\$685,775

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. There were no loans past due over 90 days and still accruing interest at March 31, 2017 or at December 31, 2016.

Note 5. Fair Value

The Company measures, monitors, and discloses certain of its assets and liabilities on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction

between market participants at the measurement date.

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels based on the reliability of the input assumptions. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements and the categorization of where an asset or liability falls within the hierarchy is based on the

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lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2 - Observable inputs other than level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities

Available for Sale Securities. The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). If the securities could not be priced using quoted market prices, observable market activity or comparable trades, the financial market was considered not active and the assets were classified as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes, by measurement hierarchy, the various assets and liabilities of the Company that are measured at fair value on a recurring basis:

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2017				
U.S. government agencies	\$ 12,193	\$ —	—\$ 12,193	\$ —
State and political subdivisions	9,098	—	6,431	2,667
U.S. government agency residential mortgage-backed securities	118,354	—	118,354	—
Collateralized mortgage obligations:				
Agency	13,627	—	13,627	—
Equities	3,030	—	3,030	—
Available-for-sale securities	\$ 156,302	\$ —	—\$ 153,635	\$ 2,667

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	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
U.S. government agencies	\$ 12,071	\$	—\$ 12,071	\$ —
State and political subdivisions	9,065	—	6,398	2,667
U.S. government agency residential mortgage-backed securities	127,313	—	127,313	—
Collateralized mortgage obligations:				
Agency	14,456	—	14,456	—
Equities	3,022	—	3,022	—
Available-for-sale securities	\$ 165,927	\$	—\$ 163,260	\$ 2,667

There were no transfers between Level 1 and Level 2 during the first three months of 2017 and all of 2016. Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs For the periods ended March 31, 2017 and December 31, 2016, the Company had \$2.7 million of local school district bonds that are measured at fair value on a recurring basis using unobservable inputs. The Company utilizes non binding broker quotes for the fair value determination of these school district bonds. These school district bond balances are the only asset of the Company that are measured at fair value on a recurring basis using significant unobservable inputs.

Assets Measured at Fair Value on a Non-Recurring Basis

The following table summarizes, by measurement hierarchy, financial assets of the Company that are measured at fair value on a non-recurring basis.

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2017				
Impaired loans				
Commercial				
Closed-end	\$ 10	\$	—\$	—\$ 10
Line of credit	194	—	—	194
CRE - construction, land & development	12	—	—	12
CRE - all other				
Non-owner occupied	2,299	—	—	2,299

1-4 family residential				
Senior lien	2,464	—	—	2,464
OREO property				
CRE - construction, land & development	568	—	—	568
CRE - all other				
Non-owner occupied	55	—	—	55
1-4 family residential				
Senior lien	38	—	—	38

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	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Impaired loans				
Commercial				
Closed-end	\$ 25	\$ —	—\$ —	—\$ 25
Line of credit	39	—	—	39
CRE - construction, land & development	12	—	—	12
1-4 family residential				
Senior lien	140	—	—	140
OREO property				
CRE - construction, land & development	1,867	—	—	1,867
CRE - all other				
Non-owner occupied	476	—	—	476
1-4 family residential				
Senior lien	163	—	—	163

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Impaired loans carried at fair value had a net carrying amount of \$5.0 million at March 31, 2017, which is made up of the outstanding balance of \$7.0 million with \$2.0 million specific loan loss allocation. The effect of these impaired loans carried at fair value on the provision for loans losses was \$1.5 million for the three month period. At December 31, 2016 impaired loans carried at fair value had a net carrying amount of \$0.2 million which was made up of the outstanding balance of \$0.8 million with a specific loan loss allocation of \$0.6 million during 2016, resulting in an additional provision for loan losses of \$0.6 million for the year ended December 31, 2016. The majority of the Bank's impaired loans are collateralized by real estate.

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, 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 for loan losses. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. 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. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

OREO properties measured at fair value, less costs to sell, had a net carrying amount of \$0.7 million which is made up of the outstanding balance of \$1.3 million, net of a valuation allowance of \$0.6 million at March 31, 2017. This compares to December 31, 2016 when OREO properties with an outstanding balance of \$3.7 million was written down to a fair value of \$2.5 million.

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2017 and December 31, 2016:

March 31, 2017	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans		Sales comparison approach	Adjustment for differences between comparable sales	
Commercial				
Closed-end	\$ 10			20% - 100% (56%)
Line of credit	\$ 194			20% - 100% (75%)
CRE - construction, land & development	\$ 12			10% - 85% (80%)
CRE - all other				
Non-owner occupied	2,299			10% - 55% (17%)
1-4 family residential				
Senior lien	2,464			10% - 60% (27%)
OREO property		Sales comparison approach	Adjustment for differences between comparable sales	
CRE - construction, land & development	568			5% - 70% (34%)
CRE - all other				
Non-owner occupied	55			5% - 50% (15%)
1-4 family residential				
Senior lien	38			6% - 55% (24%)

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December 31, 2016	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans		Sales comparison approach	Adjustment for differences between comparable sales	
Commercial				
Closed-end	\$ 25			20% - 100% (36%)
Line of credit	39			20% - 100% (89%)
CRE - construction, land & development	12			10% - 85% (80%)
1-4 family residential				
Senior lien	140			10% - 60% (57%)
OREO property		Sales comparison approach	Adjustment for differences between comparable sales	
CRE - construction, land & development	1,867			5% - 80% (30%)
CRE - all other				
Non-owner occupied	476			5% - 50% (15%)
1-4 family residential				
Senior lien	163			6% - 65% (37%)

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The estimated fair values of the Company's financial instruments are as follows:

	Carrying Value	Fair Value measurements at March 31, 2017 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$31,237	\$31,237	\$—	\$	—\$31,237
Securities	156,302	—	153,635	2,667	156,302
Restricted securities	8,019	—	—	—	NA
Net loans	679,148	—	—	678,226	678,226
Accrued interest receivable	2,454	—	591	1,863	2,454
Financial liabilities					
Deposits	\$728,489	\$—	\$728,513	\$	—\$728,513
Federal funds purchased and securities sold under agreements to repurchase					
Federal Home Loan Bank advances	11,303	—	11,303	—	11,303
Subordinated debentures	93,000	—	93,058	—	93,058
Series B mandatory redeemable preferred stock	10,310	—	—	9,724	9,724
Accrued interest payable	209	—	211	—	211
	160	—	144	16	160

	Carrying Value	Fair Value measurements at December 31, 2016 Using			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	\$22,507	\$22,507	\$—	\$	—\$22,507
Securities	165,927	—	163,260	2,667	165,927
Restricted securities	9,860	—	—	—	NA
Net loans	676,871	—	—	677,832	677,832
Accrued interest receivable	2,750	—	511	2,239	2,750
Financial liabilities					
Deposits	\$740,046	\$—	\$740,106	\$	—\$740,106
Federal funds purchased and securities sold under agreements to repurchase					
Federal Home Loan Bank advances	11,168	—	11,168	—	11,168
Notes payable	85,000	—	85,039	—	85,039
Subordinated debentures	—	—	—	—	—
Series B mandatory redeemable preferred stock	10,310	—	—	9,525	9,525
Accrued interest payable	209	—	211	—	211
	286	—	272	14	286

Other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. In addition, nonfinancial instruments typically not recognized in

financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earning potential of core deposit accounts, the earnings potential of loan servicing rights, the earnings potential of the trust operations, customer goodwill and similar items.

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

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(a) Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2. As of March 31, 2017 and December 31, 2016; \$31.2 million and \$22.5 million was classified as Level 1.

(b) Restricted securities

It is not practical to determine the fair value of restricted securities due to the restrictions placed on its transferability.

(c) Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: Fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(d) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(e) Short-term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

(f) Other Borrowings

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(g) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification which is consistent with the underlying asset/liability they are associated with.

(h) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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Note 6. Borrowed Funds and Debt Obligations

The scheduled maturities of advances from the FHLB at March 31, 2017 and December 31, 2016 are as follows:

Year	March 31, 2017		December 31, 2016	
	Average Interest Rate	Amount	Average Interest Rate	Amount
2017	0.95%	29,000	0.93%	21,000
2018	0.72	49,000	0.44	49,000
2019	1.41	10,000	1.41	10,000
2020	—	—	—	—
2021	2.46	5,000	2.46	5,000
	0.96	\$93,000	0.79	\$85,000

At March 31, 2017 and December 31, 2016 no FHLB advances had any call provisions. The Company had two variable rate advances at March 31, 2017, both at 0.60%, and two at year-end 2016, both at 0.45%. The remaining advances are at fixed rates ranging from 0.75% to 2.46% at March 31, 2017 and 0.70% to 2.46% at year-end 2016. As of March 31, 2017 and December 31, 2016, the Company had no outstanding loan agreements.

Note 7. 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, the reversal of deductible temporary differences that can be offset by taxable temporary differences and future taxable income.

After evaluating all of the factors previously summarized and considering the weight of the positive evidence compared to the negative evidence, the Company has determined that no valuation allowance was necessary as of March 31, 2017 and December 31, 2016.

Below is a summary of items included in the deferred tax inventory as of March 31, 2017 and December 31, 2016:

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	March 31, December 31,	
	2017	2016
Deferred tax assets		
Allowance for loan losses	\$3,476	\$ 3,465
Deferred compensation, other	277	108
Stock based expense	84	66
Net operating loss carryforwards	29,096	30,166
Securities available-for-sale	379	655
Deferred tax credits	1,068	1,068
OREO valuation allowance	943	942
Depreciation	196	196
Other	180	204
Total deferred tax assets	35,699	36,870
Deferred tax liabilities		
Depreciation	\$—	\$ —
Adjustments arising from acquisitions	(29)	(30)
Mortgage servicing rights	(774)	(791)
Securities available-for-sale	—	—
Federal Home Loan Bank dividend received in stock	(241)	(450)
Deferred loan fees & costs	(376)	(385)
Prepaid expenses	(179)	(179)
Total deferred tax liabilities	(1,599)	(1,835)
Valuation allowance	—	—
Net deferred tax assets	\$34,100	\$ 35,035

Note 8. Share Based Compensation

In April 2003, the Company adopted the 2003 Option Plan. Under the 2003 Option Plan, as amended on April 24, 2007, nonqualified options, incentive stock options, restricted stock and/or stock appreciation rights may be granted to employees and outside directors of the Company and its subsidiaries to purchase the Company's common stock at an exercise price to be determined by the executive and compensation committee. Pursuant to the 2003 Option Plan, 19,000 shares of the Company's unissued common stock had been reserved and were available for issuance upon the exercise of options and rights granted under the 2003 Option Plan. The granted options have an exercise period of seven to ten years from the date of grant.

In May 2015, the Company adopted the 2015 Stock Compensation Plan. Under the 2015 Stock Compensation Plan nonqualified options, incentive stock options, restricted stock and/or stock appreciation rights may be granted to employees and outside directors of the Company and its subsidiaries to purchase the Company's common stock at an exercise price to be determined by the compensation committee. A total of 430,000 shares have been made available under the 2015 Stock Compensation Plan. There are currently 356,236 shares available to grant.

There were no units of restricted stock granted for the three months ended March 31, 2017. There were 33,321 units of restricted stock granted at a grant date fair value of \$16.72 per unit for the year ended December 31, 2016. At March 31, 2017, none of the restricted stock units were vested.

There was no compensation cost charged against income for the stock options portion of the equity incentive plans for the three months ended March 31, 2017 and for the year ended December 31, 2016. There was \$0.05 million compensation cost charged against income for the restricted stock portion of the equity incentive plan for the three months ended March 31, 2017 and \$0.1 million charged for the year ended December 31, 2016.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock prior to its deregistration. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in

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effect at the time of the grant. There were no options granted for the three months ended March 31, 2017 and the year ended December 31, 2016. The 332 stock options expired on April 24, 2017.

A status summary of the option plan as of March 31, 2017 and changes during the period ended on that date are presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2017	332	\$ 578.10		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at end of period	332	\$ 578.10	0.1 years	\$ —
Vested or expected to vest	332	\$ 578.10	0.1 years	\$ —
Options exercisable at period end	332	\$ 578.10	0.1 years	\$ —

Options outstanding at March 31, 2017 and year-end 2016 were as follows:

Range of Exercise Prices	Outstanding		Exercisable	
	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
March 31, 2017				
\$578.10	332	0.1 years	332	\$ 578.10

December 31, 2016:

\$390.01 - \$578.10	332	0.3 years	332	\$ 578.10
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As of March 31, 2017, there was \$0.4 million of total unrecognized compensation cost related to non-vested shares granted under the 2015 Stock Compensation Plan.

Note 9. Regulatory Matters

The Company and Centrue Bank are subject to regulatory capital requirements administered by federal and state banking agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulations to ensure capital adequacy require the Company and Centrue Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 capital and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and, for the Bank, Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations). Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, may have a direct material effect on our financial statements. As of March 31, 2017, Centrue Bank met all capital adequacy requirements to which they were subject, including the guidelines to be considered “well capitalized.”

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 ratio and 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 is being 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. Capital ratios shown for March 31, 2017 are in excess of the Basel III 2017 phase-in level for the capital conservation buffer. On February 16, 2016 the Company received a formal order terminating the written agreement between the Company, the Bank, and the Federal Reserve Bank of Chicago and the Illinois Department of Financial and Professional Regulation.

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 (TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	Actual		To Be Adequately Capitalized		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2017						
Total capital (to risk-weighted assets)						
Centrue Financial	\$ 120,793	15.3%	N/A	N/A	N/A	N/A
Centrue Bank	118,100	14.9	63,244	8.0	79,055	10.0
Common equity tier I (to risk-weighted assets)						
Centrue Financial	\$ 105,105	13.3	N/A	N/A	N/A	N/A
Centrue Bank	109,156	13.8	35,575	4.5	51,386	6.5
Tier I capital (to risk-weighted assets)						
Centrue Financial	\$ 111,849	14.1	N/A	N/A	N/A	N/A
Centrue Bank	109,156	13.8	47,433	6.0	63,244	8.0
Tier I leverage ratio (to average assets)						
Centrue Financial	\$ 111,849	11.7	N/A	N/A	N/A	N/A
Centrue Bank	109,156	11.4	38,158	4.0	47,697	5.0
	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	\$47,695	6.0	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	\$38,273	4.0	N/A	N/A
Centrue Bank	106,551	11.1	38,268	4.0	47,835	5.0

Note 10. Business Acquisitions and Divestitures

On June 17, 2016, Centrue Bank completed the sales of its Fairview Heights, Aviston and St. Rose, Illinois branches. The sales resulted in a reduction of \$51.7 million of deposits, \$13.1 million of loans and \$5.1 million of fixed assets. These transactions generated a net gain of \$1.1 million.

On January 26, 2017, the Company announced the signing of a definitive agreement with Midland States Bancorp, Inc. ("Midland") under which Midland will acquire Centrue for estimated total consideration of \$175.1 million, or \$26.75 per share of Centrue common stock. The transaction is expected to close in mid-2017, subject to regulatory approvals, the approval of Centrue's and Midland's shareholders and the satisfaction of customary closing conditions.

CENTRUE FINANCIAL CORPORATION

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

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

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 three and three months ended March 31, 2017 as compared to the same period in 2016. In the opinion of management, all normal and recurring adjustments which are necessary to fairly present the results for the interim periods presented have been included. 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.

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.

On January 26, 2017, the Company announced the signing of a definitive agreement with Midland States Bancorp, Inc. ("Midland") under which Midland will acquire Centrue for estimated total consideration of \$175.1 million, or \$26.75 per share of Centrue common stock. The transaction is expected to close in mid-2017, subject to regulatory approvals, the approval of Centrue's and Midland's shareholders and the satisfaction of customary closing conditions.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported 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 reporting period. By their nature, changes in these assumptions and estimates could significantly affect the Company's financial position or results of operations. Actual results could differ from those estimates. Information about our critical accounting policies and estimates that are of particular significance to the Company are included under Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no changes during 2017 to the critical accounting policies listed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

CENTRUE FINANCIAL CORPORATION

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

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

Results of Operations

Net Income

Net income for the three months ended March 31, 2017 equaled \$1.1 million or \$0.15 per common diluted share as compared to net income of \$0.9 million or \$0.13 per common diluted share in the first quarter of 2016. The results for the first three months of 2017 were positively impacted by no provision for loan loss expense during the quarter and improved net interest income.

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.

Fully tax equivalent net interest income for the first quarter 2017 totaled \$7.4 million, representing an increase of \$0.1 million or 1.37% compared to \$7.3 million for the same period in 2016. This increase in income is primarily due to an increase in interest earning assets. The net interest margin was 3.50% for the first quarter of 2017, representing an increase of two basis points from the 3.48% recorded in the first quarter of 2016. The improvement in the net interest margin is being driven by the volume growth and rising yields in the loan portfolio.

CENTRUE FINANCIAL CORPORATION

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

(TABLE AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

	Three Months Ended March 31,			2016			2017		
	Average Balance	Interest/Expense	Income/Rate	Average Balance	Average Interest/Expense	Average Income/Rate	Average Change due to Volume	Rate	Net
ASSETS									
Interest-earning assets									
Interest-earning deposits	\$1,747	\$ 2	0.46 %	\$5,023	\$ 28	2.24 %	\$(20)	\$(6)	\$(26)
Securities									
Taxable ⁽¹⁾	167,267	677	1.64	178,041	829	1.87	(108)	(44)	(152)
Exempt from federal income taxes ⁽¹⁾⁽²⁾	3,925	34	3.51	4,064	34	3.36	(2)	2	—
Total securities (tax equivalent)	171,192	711	1.68	182,105	863	1.91	(110)	(42)	(152)
Federal funds sold and other	310	3	3.92	620	4	2.59	(3)	2	(1)
Loans ⁽³⁾⁽⁴⁾⁽⁵⁾									
Commercial	116,794	1,238	4.30	108,582	1,122	4.16	54	62	116
Real estate	565,261	6,122	4.39	541,800	5,866	4.35	171	85	256
Installment and other	2,852	47	6.68	3,101	44	5.71	1	2	3
Gross loans (tax equivalent)	684,907	7,407	4.39	653,483	7,032	4.33	226	149	375
Total interest-earnings assets	858,156	8,123	3.84	841,231	7,927	3.79	93	103	196
Noninterest-earning assets									
Cash and cash equivalents	33,846			38,519					
Premises and equipment, net	16,245			21,864					
Other assets	74,492			82,927					
Total nonearning assets	124,583			143,310					
Total assets	\$982,739			\$984,541					
LIABILITIES & STOCKHOLDERS'									
EQUITY									
Interest-bearing liabilities									
NOW accounts	127,741	25	0.08	128,741	25	0.08	—	—	—
Money market accounts	141,170	124	0.36	109,932	52	0.19	32	40	72
Savings deposits	122,911	3	0.01	128,320	4	0.01	Ø1	—	Ø1
Time deposits	188,873	224	0.48	192,506	182	0.38	54	Ø12	42
Federal funds purchased and repurchase									
Agreements	12,210	7	0.23	17,290	12	0.28	Ø2	Ø3	Ø5
Advances from FHLB	97,611	227	0.94	101,516	230	0.91	Ø9	6	Ø3
Notes payable	10,519	98	3.78	20,888	146	2.81	Ø77	29	Ø48
Total interest-bearing liabilities	701,035	708	0.41	699,193	651	0.37	Ø3	60	57
Noninterest-bearing liabilities									
Noninterest-bearing deposits	150,130			157,520					
Other liabilities	4,132			5,781					
Total noninterest-bearing liabilities	154,262			163,301					
Stockholders' equity	127,442			122,047					

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Total liabilities and stockholders' equity	\$982,739	\$984,541
Net interest income (tax equivalent)	\$7,415	