

CENTRUE FINANCIAL CORP
Form 10-Q
November 14, 2011

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 September 30, 2011
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)

7700 Bonhomme Avenue, St. Louis, Missouri 63105
(Address of principal executive offices including zip code)

(314) 505-5500
(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

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.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Class	Shares outstanding at November 14, 2011
Common Stock, Par Value \$1.00	6,063,441

Centrue Financial Corporation
Form 10-Q Index
September 30, 2011

		Page
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Unaudited Consolidated Balance Sheets</u>	1
	<u>Unaudited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)</u>	2
	<u>Unaudited Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
<u>Item 4.</u>	<u>Controls and Procedures</u>	52
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	53
<u>Item 1A.</u>	<u>Risk Factors</u>	53
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	53
<u>Item 4.</u>	<u>[Reserved]</u>	53
<u>Item 5.</u>	<u>Other Information</u>	53
<u>Item 6.</u>	<u>Exhibits</u>	54
<u>SIGNATURES</u>		55

Centrue Financial Corporation
Part I Financial Information
Item 1. Financial Statements
Unaudited Consolidated Balance Sheets
September 30, 2011 and December 31, 2010 (In Thousands, Except Share Data)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 63,296	\$ 82,945
Securities available-for-sale	236,086	219,475
Restricted securities	9,150	10,470
Loans	620,450	721,871
Allowance for loan losses	(23,314)	(31,511)
Net loans	597,136	690,360
Bank-owned life insurance	31,158	30,403
Mortgage servicing rights	2,151	2,425
Premises and equipment, net	24,526	25,687
Other real estate owned	32,912	25,564
Other assets	12,538	17,833
Total assets	\$ 1,008,953	\$ 1,105,162
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	\$ 111,263	\$ 118,667
Interest-bearing	750,854	812,438
Total deposits	862,117	931,105
Federal funds purchased and securities sold under agreements to repurchase	21,364	16,188
Federal Home Loan Bank advances	48,058	71,059
Notes payable	10,533	10,623
Series B mandatory redeemable preferred stock	268	268
Subordinated debentures	20,620	20,620
Other liabilities	13,032	12,378
Total liabilities	975,992	1,062,241
Commitments and contingent liabilities	—	—
Stockholders' equity		
Series A convertible preferred stock (aggregate liquidation preference of \$2,762)	500	500
Series C fixed rate, Cumulative Perpetual Preferred Stock (aggregate liquidation preference of \$32,668)	31,274	30,810
Common stock, \$1 par value, 15,000,000 shares authorized; 7,453,555 shares issued at September 30, 2011 and December 31, 2010	7,454	7,454
Surplus	74,776	74,721
Accumulated Deficit	(59,456)	(46,861)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Accumulated other comprehensive income (loss)	527	(1,589)
	55,075	65,035
Treasury stock, at cost 1,405,150 shares at September 30, 2011 and December 31, 2010	(22,114)	(22,114)
Total stockholders' equity	32,961	42,921
Total liabilities and stockholders' equity	\$ 1,008,953	\$ 1,105,162

See Accompanying Notes to Unaudited Financial Statements

1.

Centrue Financial Corporation
 Unaudited Consolidated Statements Of Income (Loss)
 And Comprehensive Income (Loss)
 Three Months and Nine Months Ended September 30, 2011 and 2010
 (In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income				
Loans	\$8,297	\$9,856	\$26,414	\$31,877
Securities				
Taxable	1,047	1,377	3,132	4,723
Exempt from federal income taxes	158	247	550	783
Federal funds sold and other	40	28	108	93
Total interest income	9,542	11,508	30,204	37,476
Interest expense				
Deposits	1,937	3,416	6,637	11,836
Federal funds purchased and securities sold under agreements to repurchase	11	7	32	37
Federal Home Loan Bank advances	347	573	1,114	1,733
Series B mandatory redeemable preferred stock	4	4	12	12
Subordinated debentures	277	270	821	783
Notes payable	89	99	270	279
Total interest expense	2,665	4,369	8,886	14,680
Net interest income	6,877	7,139	21,318	22,796
Provision for loan losses	2,400	7,250	9,900	24,150
Net interest income (loss) after provision for loan losses	4,477	(111)	11,418	(1,354)
Noninterest income				
Service charges	1,232	1,215	3,483	3,934
Mortgage banking income	341	628	1,050	1,114
Bank-owned life insurance	256	261	755	773
Electronic banking services	552	516	1,644	1,528
Securities gains	—	899	379	1,913
Total other-than-temporary impairment losses	—	(569)	(499)	(4,153)
Portion of loss recognized in other comprehensive income (before taxes)	—	71	—	131
Net impairment on securities	—	(498)	(499)	(4,022)
Gain (loss) on sale of OREO	(12)	24	(60)	34
Gain (loss) on sale of other assets	(16)	178	47	1,648
Other income	213	204	575	633
	2,566	3,427	7,374	7,555

See Accompanying Notes to Unaudited Financial Statements

2.

Centrue Financial Corporation
 Unaudited Consolidated Statements Of Income (Loss)
 And Comprehensive Income (Loss)
 Three Months and Nine Months Ended September 30, 2011 and 2010
 (In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Noninterest expenses				
Salaries and employee benefits	3,505	3,547	10,598	11,019
Occupancy, net	712	647	2,136	2,378
Furniture and equipment	407	642	1,267	1,685
Marketing	56	91	183	280
Supplies and printing	67	106	208	302
Telephone	229	194	637	567
Data processing	381	388	1,120	1,167
FDIC insurance	323	842	1,997	2,549
Loan processing and collection costs	495	675	1,597	1,789
OREO valuation adjustment	4,473	378	5,770	2,365
Amortization of intangible assets	250	307	789	967
Other expenses	1,499	1,462	4,472	4,307
	12,397	9,279	30,774	29,375
Income (loss) before income taxes	\$ (5,354)	\$ (5,963)	\$ (11,982)	\$ (23,174)
Income tax expense (benefit)	(606)	10,440	(1,352)	3,414
Net income (loss)	\$ (4,748)	\$ (16,403)	\$ (10,630)	\$ (26,588)
Preferred stock dividends	505	484	1,500	1,435
Net income (loss) for common stockholders	\$ (5,253)	\$ (16,887)	\$ (12,130)	\$ (28,023)
Basic earnings (loss) per common share	\$ (0.87)	\$ (2.79)	\$ (2.01)	\$ (4.64)
Diluted earnings (loss) per common share	\$ (0.87)	\$ (2.79)	\$ (2.01)	\$ (4.64)
Total comprehensive income (loss):				
Net income (loss)	\$ (4,748)	\$ (16,403)	\$ (10,630)	\$ (26,588)
Change in unrealized gains (losses) on available for sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings	—	(341)	(80)	(3,067)
Change in unrealized gains (losses) on other securities available for sale	1,075	661	3,411	1,557
Reclassification adjustment:				
Net impairment loss recognized in earnings	—	498	499	4,022
(Gains) recognized in earnings	—	(899)	(379)	(1,913)
Net unrealized gains (loss)	1,075	(81)	3,451	599
Tax expense (benefit)	416	(32)	1,335	232
Other comprehensive income (loss)	659	(49)	2,116	367

Total comprehensive income (loss)	\$	(4,089)	\$	(16,452)	\$(8,514)	\$(26,221)
-----------------------------------	----	--------	---	----	---------	---	----------	---	-----------	---

See Accompanying Notes to Unaudited Financial Statements

3.

Centrue Financial Corporation
 Unaudited Consolidated Statements Of Cash Flows
 Nine Months Ended September 30, 2011 and 2010 (In Thousands)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net Income (Loss)	\$ (10,630)	\$ (26,588)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	1,406	1,927
Amortization of intangible assets	789	967
Amortization of mortgage servicing rights, net	341	452
Amortization of bond premiums, net	1,666	2,084
Mortgage servicing rights valuation adjustment	89	225
Income tax valuation allowance	3,896	12,816
Share based compensation	54	83
Provision for loan losses	9,900	24,150
Provision for deferred income taxes	(3,896)	(6,886)
Earnings on bank-owned life insurance	(755)	(773)
Other than temporary impairment, securities	499	4,022
OREO valuation allowance	5,770	2,365
Securities sale losses (gains), net	(379)	(1,913)
(Gain) on sale of other assets, net	(47)	(469)
(Gain) loss on sale of OREO	60	(34)
(Gain) loss on sale of loans	(787)	(1,102)
(Gain) loss on sale of branches	—	(1,179)
Proceeds from sales of loans held for sale	31,651	50,621
Origination of loans held for sale	(31,149)	(50,135)
Change in assets and liabilities		
(Increase) decrease in other assets	4,166	3,259
Increase (decrease) in other liabilities	(2,227)	(682)
Net cash provided by operating activities	10,417	13,210
Cash flows from investing activities		
Proceeds from paydowns of securities available for sale	31,946	56,446
Proceeds from calls and maturities of securities available for sale	18,000	11,650
Proceeds from sales of securities available for sale	19,738	74,152
Purchases of securities available for sale	(83,212)	(152,431)
Net decrease (increase) in loans	64,458	82,107
(Purchase) disposal of premises and equipment	(245)	175
Proceeds from sale of OREO	6,152	801
Sale of branch, net of premium received	—	(11,726)
Net cash provided by (used in) investing activities	56,837	61,174
Cash flows from financing activities		
Net increase (decrease) in deposits	(68,988)	(77,123)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	5,176	(4,500)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Repayment of advances from the Federal Home Loan Bank	(33,001)	(40,201)
Proceeds from advances from the Federal Home Loan Bank	10,000	35,000
Payments on notes payable	(90)	(85)
Net cash provided by (used in) financing activities	(86,903)	(86,909)
Net increase (decrease) in cash and cash equivalents	(19,649)	(12,525)
Cash and cash equivalents		
Beginning of period	82,945	56,452
End of period	\$ 63,296	\$ 43,927
Supplemental disclosures of cash flow information		
Cash payments for		
Interest	\$ 9,018	\$ 14,454
Income taxes	19	—
Transfers from loans to other real estate owned	19,151	11,650

See Accompanying Notes to Unaudited Financial Statements

4.

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 subsidiaries. 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. Additionally, 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 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.

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, 2010. The consolidated financial statements include the accounts of the Company and Centrue Bank. Intercompany balances and transactions have been eliminated in consolidation and certain 2010 amounts have been reclassified to conform to the 2011 presentation. The annualized results of operations during the three and nine months ended September 30, 2011 are not necessarily indicative of the results expected for the year ending December 31, 2011. 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.

Note 2. Earnings Per Share

Basic earnings per share for the three and nine months ended September 30, 2011 and 2010 were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share for the same periods were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the stock options and warrants. Computations for basic and diluted earnings per share are provided as follows:

5.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 2. Earnings Per Share (Continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Earnings (Loss) Per Common Share				
Net income (loss) for common shareholders	\$(5,253)	\$(16,887)	\$(12,130)	\$(28,023)
Weighted average common shares outstanding	6,048	6,046	6,048	6,044
Basic earnings (loss) per common share	\$(0.87)	\$(2.79)	\$(2.01)	\$(4.64)
Diluted Earnings (Loss) Per Common Share				
Weighted average common shares outstanding	6,048	6,046	6,048	6,044
Add: dilutive effect of assumed exercised stock options	—	—	—	—
Add: dilutive effect of assumed exercised common stock warrants	—	—	—	—
Weighted average common and dilutive potential shares outstanding	6,048	6,046	6,048	6,044
Diluted earnings (loss) per common share	\$(0.87)	\$(2.79)	\$(2.01)	\$(4.64)

There were 464,038 options and 508,320 warrants outstanding for the three and nine months ended September 30, 2011 and 561,069 options and 508,320 warrants outstanding for the three and nine months ended September 30, 2010 that 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. In addition, the Company's convertible preferred stock was not included in the computation of diluted earnings per share as it was anti-dilutive.

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 securities classified as available-for-sale was \$236.1 million at September 30, 2011 compared to \$219.5 million at December 31, 2010. The fair value of securities classified as restricted (Federal Reserve and Federal Home Loan Bank stock) was \$9.2 million at September 30, 2011 compared to \$10.5 million at December 31, 2010. The Company does not have any securities classified as trading or held-to-maturity.

The following tables represent the fair value of available-for-sale securities and the related, gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at September 30, 2011 and December 31, 2010:

		September 30, 2011		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	\$3,285	\$99	\$—	\$3,186
States and political subdivisions	21,361	721	—	20,640

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

U.S. government agency residential mortgage-backed securities	179,098	2,991	(98)	176,205
Collateralized residential mortgage obligations:				
Agency	16,823	257	—	16,566
Private label	2,178	354	(4)	1,828
Equity securities	2,520	155	—	2,365
Collateralized debt obligations:				
Single issue	3,071	25	—	3,046
Pooled	5,763	46	(2,394)	8,111
Corporate	1,987	—	(13)	2,000
	\$236,086	\$4,648	\$(2,509)	\$233,947

6.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 3. Securities (Continued)

	December 31, 2010			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	\$7,085	\$168	\$—	\$6,917
States and political subdivisions	28,348	531	(8)	27,825
U.S. government agency residential mortgage-backed securities	147,846	2,070	(131)	145,907
Collateralized residential mortgage obligations:				
Agency	20,735	192	—	20,543
Private label	4,936	70	(77)	4,943
Equity securities	2,254	41	—	2,213
Collateralized debt obligations:				
Single issue	3,849	3	—	3,846
Pooled	4,422	42	(4,213)	8,593
	\$219,475	\$3,117	\$(4,429)	\$220,787

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Proceeds from calls and maturities	\$6,080	\$7,245	\$18,000	\$11,650
Proceeds from sales	—	39,293	19,738	74,152
Realized gains	—	937	379	1,951
Realized losses	—	(38)	—	(38)
Net impairment loss recognized in earnings	—	(498)	(499)	(4,022)
Tax benefit (provision) related to net realized gains and losses	—	(155)	46	814

The following table represents securities with unrealized losses not recognized in income presented by the length of time individual securities have been in a continuous unrealized loss position:

	September 30, 2011				Total	
	Less than 12 Months		12 Months or More		Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agency residential mortgage-backed securities	23,352	(98)	—	—	23,352	(98)

Collateralized residential mortgage obligations: private label	860	(4)	—	—	860	(4)
Collateralized debt obligations: pooled Corporate	—	—	5,667	(2,394)	5,667	(2,394)
	1,987	(13)	—	—	1,987	(13)
Total temporarily impaired	\$ 26,199	\$ (115)	\$ 5,667	\$ (2,394)	\$ 31,866	\$ (2,509)

7.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 3. Securities (Continued)

	Less than 12 Months		December 31, 2010 12 Months or More		Fair Value	Total Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
State and political subdivisions	\$ 664	\$ (3)	\$ 350	\$ (5)	\$ 1,014	\$ (8)
U.S. government agency residential mortgage-backed securities	17,216	(131)	—	—	17,216	(131)
Collateralized residential mortgage obligations: private label	—	—	2,559	(77)	2,559	(77)
Collateralized debt obligations: pooled	—	—	4,330	(4,213)	4,330	(4,213)
Total temporarily impaired	\$ 17,880	\$ (134)	\$ 7,239	\$ (4,295)	\$ 25,119	\$ (4,429)

The fair values of securities classified as available-for-sale at September 30, 2011, by contractual maturity, are shown as follows. Securities not due at a single maturity date, including mortgage-backed securities, collateralized mortgage obligations, and equity securities are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	\$ 5,491	\$ 5,533
Due after one year through five years	12,613	12,959
Due after five years through ten years	6,400	6,740
Due after ten years	12,479	10,235
U.S. government agency residential mortgage-backed securities	176,205	179,098
Collateralized residential mortgage obligations	18,394	19,001
Equity securities	2,365	2,520
	\$ 233,947	\$ 236,086

The following table presents a rollforward of the credit losses recognized in earnings for the three month period ended September 30, 2011 and 2010:

	2011	2010
Beginning balance, July 1,	\$ 20,861	\$ 18,865
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	—	—

Additions/Subtractions		
Amounts realized for securities sold during the period	—	—
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company will be required to sell prior to recovery of amortized cost basis	—	—
Reduction for increase in cash flows expected to be collected that are recognized over the remaining life of the security	—	—
Increases to the amount related to the credit loss for which other-than-temporary was previously recognized	—	498
Ending balance, September 30,	\$ 20,861	\$ 19,363

8.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 3. Securities (Continued)

The following table presents a rollforward of the credit losses recognized in earnings for the nine month period ended September 30, 2011 and 2010:

	2011	2010
Beginning balance, January 1,	\$ 20,362	\$ 15,341
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	—	—
Additions/Subtractions		
Amounts realized for securities sold during the period	—	—
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company will be required to sell prior to recovery of amortized cost basis	—	—
Reduction for increase in cash flows expected to be collected that are recognized over the remaining life of the security	—	—
Increases to the amount related to the credit loss for which other-than-temporary was previously recognized	499	4,022
Ending balance, September 30,	\$ 20,861	\$ 19,363

See Note 9 on Fair Value for additional information about our analysis on the security portfolio related to the fair value and other-than-temporary impairment disclosures of these instruments.

Note 4. Loans

The major classifications of loans follow:

	Aggregate Principal Amount	
	September 30, 2011	December 31, 2010
Commercial	\$ 73,545	\$ 87,226
Agricultural & AGRE	37,883	44,289
Construction, land & development	44,230	72,078
Commercial RE	300,169	342,208
1-4 family mortgages	162,019	172,666
Consumer	2,604	3,404
Total loans	\$ 620,450	\$ 721,871
Allowance for loan losses	(23,314)	(31,511)
Loans, net	\$ 597,136	\$ 690,360

There were \$2.0 million and \$1.7 million of loans held for sale at September 30, 2011 and December 31, 2010, respectively.

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 identified 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.

9.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

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

Sep. 30, 2011 Internal Risk Rating	Commercial		Construction		Commercial Real Estate		Total
	Closed end	Lines of Credit	Agriculture & AG RE	Land & Development	Owner-Occupied	Non-Owner Occupied	
1-2	\$ 1,215	\$ 313	\$ 4,579	\$ 3,758	\$ 3,782	\$ 836	\$ 14,483
3	3,354	5,066	13,056	1,122	10,072	18,645	51,315
4	18,016	21,641	14,669	1,743	72,871	47,550	176,490
5	10,117	3,301	3,411	6,157	21,113	51,963	96,062
6	3,039	3,849	2,103	5,672	6,331	17,258	38,252
7	2,076	1,558	65	25,778	20,007	29,741	79,225
8	—	—	—	—	—	—	—
Total	\$ 37,817	\$ 35,728	\$ 37,883	\$ 44,230	\$ 134,176	\$ 165,993	\$ 455,827

Dec. 31, 2010 Internal Risk Rating	Commercial		Construction		Commercial Real Estate		Total
	Closed end	Lines of Credit	Agriculture & AG RE	Land & Development	Owner-Occupied	Non-Owner Occupied	
1-2	\$ 2,294	\$ 331	\$ 8,527	\$ 4,700	\$ 8,559	\$ 1,479	\$ 25,890
3	3,935	7,333	10,873	1,237	17,673	23,045	64,096
4	21,225	24,042	16,742	1,500	76,491	61,468	201,468
5	10,483	4,768	3,588	8,720	21,389	42,495	91,443
6	1,217	4,506	42	7,232	3,206	20,821	37,024
7	2,149	4,898	4,517	48,689	25,075	40,507	125,835
8	—	45	—	—	—	—	45
Total	\$ 41,303	\$ 45,923	\$ 44,289	\$ 72,078	\$ 152,393	\$ 189,815	\$ 545,801

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

Sep. 30, 2011	Residential – 1-4 family		Total
	Senior Lien	JR Lien & Lines of Credit	
Unrated	\$96,512	\$52,245	\$148,757
Special mention	1,266	925	2,191
Substandard	9,657	1,414	11,071
Total	\$107,435	\$54,584	\$162,019

	Residential – 1-4 family JR Lien & Lines of		
	Senior Lien	Credit	Total
Dec. 31, 2010			
Unrated	\$99,852	\$55,147	\$154,999
Special mention	1,034	1,769	2,803
Substandard	13,707	1,157	14,864
Total	\$114,593	\$58,073	\$172,666

10.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

An analysis of the activity in the allowance for loan losses for the three months ended September 30, 2011 and 2010 follows:

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
September 30, 2011							
Beginning Balance	\$ 1,751	\$ 386	\$ 6,310	\$ 13,009	\$ 2,867	\$ 35	\$ 24,358
Charge-offs	(151)	(21)	(3,018)	(961)	(194)	(9)	(4,354)
Recoveries	17	3	451	12	426	1	910
Provision	509	(362)	1,372	702	170	9	2,400
Ending Balance	\$ 2,126	\$ 6	\$ 5,115	\$ 12,762	\$ 3,269	\$ 36	\$ 23,314

September 30, 2010							
Beginning Balance							\$ 42,378
Charge-offs							(6,303)
Recoveries							65
Provision							7,250
Ending Balance							\$ 43,390

An analysis of the activity in the allowance for loan losses for the nine months ended September 30, 2011 and 2010 follows:

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
September 30, 2011							
Beginning Balance	\$ 1,634	\$ 337	\$ 12,500	\$ 13,721	\$ 3,273	\$ 46	\$ 31,511
Charge-offs	(391)	(674)	(9,852)	(6,975)	(1,489)	(35)	(19,416)
Recoveries	35	6	551	243	462	22	1,319
Provision	848	337	1,916	5,773	1,023	3	9,900
Ending Balance	\$ 2,126	\$ 6	\$ 5,115	\$ 12,762	\$ 3,269	\$ 36	\$ 23,314

September 30, 2010							
Beginning Balance							\$ 40,909

Charge-offs	(21,898)
Recoveries	229
Provision	24,150
Ending Balance	\$ 43,390

11.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following is an analysis on the balance and allowance for loan loss for impaired loans as of September 30, 2011 and December 31, 2010:

	Commercial	Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
Sep. 30, 2011							
Allowance for loan losses:							
Loans individually evaluated for impairment	\$ 1,156	\$—	\$ 2,423	\$ 5,439	\$ 1,405	\$—	\$ 10,423
Loans collectively evaluated for impairment	970	6	2,692	7,323	1,864	36	12,891
Total ending allowance balance	\$ 2,126	\$ 6	\$ 5,115	\$ 12,762	\$ 3,269	\$ 36	\$ 23,314
Loan balances:							
Loans individually evaluated for impairment	\$ 3,427	\$ 65	\$ 25,779	\$ 42,537	\$ 10,849	\$—	\$ 82,657
Loans collectively evaluated for impairment	70,118	37,818	18,451	257,632	151,170	2,604	537,793
Loans with an allowance recorded:	\$ 73,545	\$ 37,883	\$ 44,230	\$ 300,169	\$ 162,019	\$ 2,604	\$ 620,450
Dec. 31, 2010							
Allowance for loan losses:							
Loans individually evaluated for impairment	\$ 1,175	\$ 328	\$ 8,174	\$ 6,487	\$ 1,500	\$—	\$ 17,664
	459	9	4,326	7,234	1,773	46	13,847

Loans collectively evaluated for impairment							
Total ending allowance balance	\$ 1,634	\$ 337	\$ 12,500	\$ 13,721	\$ 3,273	\$ 46	\$ 31,511
Loan balances:							
Loans individually evaluated for impairment	\$ 6,858	\$ 4,516	\$ 48,535	\$ 51,652	\$ 14,602	\$ 1	\$ 126,164
Loans collectively evaluated for impairment	80,368	39,773	23,543	290,556	158,064	3,403	595,707
Loans with an allowance recorded:	\$ 87,226	\$ 44,289	\$ 72,078	\$ 342,208	\$ 172,666	\$ 3,404	\$ 721,871

Troubled Debt Restructurings:

The Company had troubled debt restructurings (“TDRs”) of \$7.3 million and \$5.3 million as of September 30, 2011 and December 31, 2010, respectively. Specific reserves of \$0.7 million and \$0.4 million were allocated to TDRs as of September 30, 2011 and December 31, 2010, respectively. At September 30, 2011, nonaccrual TDR loans were \$4.5 million, as compared to \$5.0 million at December 31, 2010. At September 30, 2011 and December 31, 2010, \$2.8 million and \$0.3 million of TDRs were on accrual status. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as TDRs as of September 30, 2011.

During the period ending September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included 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. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 6 months to 16 months.

12.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the three and nine month period ending September 30, 2011:

For the Three Months Ended September 30, 2011

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Provision
Commercial	—	\$ —	\$ —	\$—
Agricultural & AGRE	—	—	—	—
Construction, land & development	—	—	—	—
Commercial RE	1	872	872	90
1-4 family mortgages	—	—	—	—
Consumer	—	—	—	—
Total	1	\$ 872	\$ 872	\$90

For the Nine Months Ended September 30, 2011

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Provision
Commercial	—	\$ —	\$ —	\$—
Agricultural & AGRE	—	—	—	—
Construction, land & development	2	72	72	36
Commercial RE	2	1,073	1,073	671
1-4 family mortgages	1	31	31	23
Consumer	—	—	—	—
Total	5	\$ 1,176	\$ 1,176	\$730

The troubled debt restructurings described increased the allowance for loan losses by \$0.09 million and \$0.7 million and resulted in no charge offs during the three and nine month periods ending September 30, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and nine month periods ending September 30, 2011.

For the Three Months Ended
September 30, 2011

Number of Loans	Recorded Investment
--------------------	------------------------

Commercial	—	—
Agricultural & AGRE	—	—
Construction, land & development	—	—
Commercial RE	—	—
1-4 family mortgages	—	—
Consumer	—	—
Total	—	—

13.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

	For the Nine Months Ended September 30, 2011	
	Number of Loans	Recorded Investment
Commercial	—	\$—
Agricultural & AGRE	—	—
Construction, land & development	—	—
Commercial RE	1	664
1-4 family mortgages	—	—
Consumer	—	—
Total	1	\$664

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above did not increase the allowance for loan losses and resulted in charge off's of \$0.0 million and \$0.4 million for the three and nine month periods ending September 30, 2011.

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
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following tables present data on impaired loans:

September 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Current Quarter Average Recorded Investment	Year-to-Date Average Recorded Investment	Current Quarter Interest Income Recognized	Year-to-Date Interest Income Recognized
Loans with no related allowance recorded:							
Commercial							
Closed End	\$62	\$153	\$—	\$61	\$ 83	\$—	\$ 2
Line of Credit	478	478	—	718	1,493	3	4
Agricultural & AGRE	65	682	—	61	63	—	3
Construction, land & development	6,653	23,495	—	11,937	11,126	3	(95)
CRE – all other							
Owner Occupied	5,908	6,627	—	6,799	6,743	9	57
Non-Owner Occupied							
1-4 family residential	10,958	13,131	—	13,331	13,887	115	385
Senior lien	2,140	2,227	—	2,561	2,518	28	66
Junior lien & lines or credit	808	905	—	701	638	10	17
Consumer	1	1	—	—	—	—	—
Subtotal	27,073	47,699	—	36,169	36,551	168	439
Loans with an allowance recorded:							
Commercial							
Closed End	\$1,806	\$1,806	\$1,060	\$1,436	\$ 1,370	\$ 28	\$ 79
Line of Credit	1,080	2,114	96	2,724	2,045	—	23
Agricultural & AGRE	—	—	—	1,386	2,069	—	—
CRE -							
Construction, land & development	19,125	26,825	2,423	19,796	22,764	(8)	122
CRE – all other							
Owner Occupied	13,966	14,437	3,147	12,584	12,439	215	654

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Non-owner occupied 1-4 family residential	11,706	11,731	2,292	12,575	12,190	222	444
Senior lien	7,450	7,869	1,327	7,950	8,464	160	525
Junior lien & lines of credit	451	598	78	390	357	2	5
Consumer	—	—	—	3	2	—	—
Subtotal	55,584	65,380	10,423	58,844	61,700	619	1,852
Total	\$82,657	\$113,079	\$10,423	\$95,013	\$98,251	\$787	\$2,291
Commercial	\$71,807	\$101,479	\$9,018	\$83,408	\$86,272	\$587	\$1,677
Residential	\$10,849	\$11,599	\$1,405	\$11,602	\$11,977	\$200	\$613
Consumer	\$1	\$1	\$—	\$3	\$2	\$—	\$—

Cash basis interest income recognized during the three and nine months ended September 30, 2011, totaled \$0.8 million and \$2.1 million, respectively.

15.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial					
Closed End	\$ 151	\$832	\$—	\$63	\$ 2
Line of Credit	3,816	4,973	—	1,575	131
Agricultural & AGRE	68	685	—	143	86
Construction, land & development	8,695	23,949	—	8,188	(395)
CRE – all other					
Owner Occupied	6,575	6,784	—	4,693	196
Non-Owner Occupied	15,554	19,797	—	11,102	117
1-4 family residential					
Senior lien	2,390	2,477	—	2,585	94
Junior lien & lines or credit	447	476	—	484	10
Consumer	1	1	—	—	—
Subtotal	37,699	59,974	—	28,833	241
Loans with an allowance recorded:					
Commercial					
Closed End	\$ 1,764	\$ 1,764	\$ 1,170	\$ 4,208	\$ 86
Line of Credit	1,126	1,126	5	20	54
Agricultural & AGRE	4,448	4,448	328	3,849	155
CRE - Construction, land & development	39,840	51,001	8,175	40,972	914
CRE – all other					
Owner Occupied	15,982	16,889	3,981	14,818	648
Non-owner occupied	13,541	17,806	2,505	13,625	(13)
1-4 family residential					
Senior lien	11,205	11,334	1,200	11,192	957
Junior lien & lines of credit	559	1,478	300	289	(101)
Consumer	—	—	—	11	—
Subtotal	88,465	105,846	17,664	88,984	2,700
Total	\$ 126,164	\$ 165,820	\$ 17,644	\$ 117,817	\$ 2,941
Commercial					
Residential	\$ 111,561	\$ 150,055	\$ 16,164	\$ 103,256	\$ 1,981
Consumer	\$ 14,602	\$ 15,765	\$ 1,500	\$ 14,550	\$ 960
Consumer	\$ 1	\$ 1	\$ —	\$ 11	\$ —

Due to the economic conditions facing many of its customers, the Company determined that there were \$37.5 million and \$56.5 million of loans that were classified as impaired but were considered to be performing loans at September 30, 2011 and December 31, 2010, respectively.

16.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following tables represent activity related to loan portfolio aging:

September 30, 2011	30 – 59 days past due	60 -89 days past due	90 days past due or nonaccrual	Total Past Due	Current	Total Loans	Recorded Investment 90 days Accruing
Commercial							
Closed end	\$ 68	\$ —	\$ 175	\$ 244	\$ 37,574	\$ 37,817	\$ —
Line of credit	48	—	1,559	1,606	34,121	35,728	—
Agricultural & AGRE							
	—	—	65	65	37,818	37,883	—
CRE – construction, land & develop							
	—	328	25,407	25,735	18,495	44,230	—
CRE – all other							
Owner occupied	1,951	394	6,068	8,414	125,763	134,176	—
Non-owner occupied	5,857	103	8,461	14,420	151,572	165,993	—
Residential – 1-4 family							
Senior lien	611	391	2,893	3,895	103,539	107,435	—
Junior lien & lines of credit	556	350	522	1,428	53,157	54,584	—
Consumer	71	—	—	71	2,533	2,604	—
Total	\$ 9,162	\$ 1,566	\$ 45,150	\$ 55,878	\$ 564,572	\$ 620,450	\$ —

December 31, 2010	30 – 59 days past due	60 -89 days past due	90 days past due or nonaccrual	Total Past Due	Current	Total Loans	Recorded Investment 90 days Accruing
Commercial							
Closed end	\$ 225	\$ 1	\$ 321	\$ 547	\$ 40,756	\$ 41,303	\$ —
Line of credit	—	—	4,089	4,089	41,834	45,923	—
Agricultural & AGRE							
	58	—	89	147	44,142	44,289	—
CRE – construction, land & develop							
	1,856	2,664	36,355	40,875	31,203	72,078	—
CRE – all other							
Owner occupied	633	217	12,361	13,211	139,182	152,393	—
Non-owner occupied	1,194	—	12,765	13,959	175,856	189,815	—

Residential – 1-4 family							
Senior lien	2,111	866	3,143	6,120	108,473	114,593	58
Junior lien & lines of credit	862	300	566	1,728	56,345	58,073	—
Consumer	2	2	—	4	3,400	3,404	—
Total	\$ 6,941	\$ 4,050	\$ 69,689	\$ 80,680	\$ 641,191	\$ 721,871	\$ 58

17.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following table represents data for nonaccrual loans. Included in the September 30, 2011 and December 31, 2010 totals are \$4.5 million and \$5.0 million of TDRs. Excluded are the accruing TDRs of \$2.8 million and \$0.3 million, respectively:

	For the period ended	
	September 30, 2011	December 31, 2010
Commercial		
Closed end	\$ 175	\$ 321
Line of credit	1,559	4,088
Agricultural & AGRE	65	89
CRE – construction, land & development	25,407	36,355
CRE – all other		
Owner occupied	6,069	12,361
Non-owner occupied	8,460	12,765
Residential – 1-4 family		
Senior lien	2,893	3,085
Junior lien & lines of credit	522	567
Consumer	—	—
Total	\$ 45,150	\$ 69,631

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Note 5. 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, 570,000 shares of the Company's unissued common stock have been reserved and are available for issuance upon the exercise of options and rights granted under the 2003 Option Plan. The options have an exercise period of seven to ten years from the date of grant. There are 66,000 shares available to grant under this plan.

A summary of the status of the option plans as of September 30, 2011, and changes during the period ended on those dates is presented below:

September 30, 2011			
Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Outstanding at January 1, 2011	525,969	\$	16.68		
Granted	—		—		
Exercised	—		—		
Forfeited	(61,931)		12.65		
Outstanding at end of period	464,038	\$	17.21	2.8 years	\$ —
Vested or expected to vest	461,716	\$	17.23	2.8 years	\$ —
Options exercisable at period end	412,438	\$	17.72	2.7 years	\$ —

18.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 5. Share Based Compensation (Continued)

Options outstanding at September 30, 2011 and December 31, 2010 were as follows:

Range of Exercise Prices	Outstanding	Weighted- Average Remaining Contractual Life	Exercisable	Weighted- Average Exercise Price
	Number		Number	
September 30, 2011:				
\$ 5.24 - \$ 13.00	90,500	4.4 years	61,400	\$ 7.43
13.88 - 18.63	152,338	2.3 years	135,938	16.71
19.03 - 23.31	221,200	2.6 years	215,100	21.29
	464,038	2.8 years	412,438	\$ 17.72
December 31, 2010:				
\$ 5.24 - \$ 13.00	137,331	4.1 years	74,531	\$ 8.65
13.88 - 18.63	164,738	3.1 years	122,138	16.60
19.03 - 23.31	223,900	3.3 years	211,500	21.33
	525,969	3.5 years	408,169	\$ 17.60

There were no options exercised for the periods ended September 30, 2011 and 2010. The compensation cost that has been charged against income for the stock options portion of the Option Plans was \$(0.01) million and \$0.03 million for the three months ended September 30, 2011 and 2010, and \$0.05 million and \$0.08 million for the nine months ended September 30, 2011 and 2010, respectively.

There were no stock options granted during the 2011 and 2010 periods.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2011 and beyond is estimated as follows:

	Amount
October, 2011 – December, 2011	\$ 17
2012	47
2013	20
2014	—
Total	\$ 84

Note 6. Contingent Liabilities and Other Matters

Neither the Company nor its subsidiary is involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business, which, in the opinion of management, in the aggregate, are not material to the Company's consolidated financial condition.

Note 7. Segment Information

The Company's segment information provided below focuses on its three primary lines of business (Segment(s)): Retail Banking, Commercial Banking and Treasury. The financial information presented was derived from the Company's internal profitability reporting system that is used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies which have been developed to reflect the underlying economics of the Segments and, to the extent practicable, to portray each Segment as if it operated on a stand-alone basis. Thus, each Segment, in addition to its direct revenues, expenses, assets and liabilities, includes an allocation of shared support function expenses and corporate overhead. All Segments also include funds transfer adjustments to appropriately reflect the cost of funds on loans made, funding credits on deposits generated, and the cost of maintaining adequate liquidity. Apart from these adjustments, the accounting policies used are similar to those described in Note 1.

19.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 7. Segment Information (Continued)

Since there are no comprehensive standards for management accounting that are equivalent to accounting principles generally accepted in the United States of America, the information presented may not necessarily be comparable with similar information from other financial institutions. In addition, methodologies used to measure, assign, and allocate certain items may change from time-to-time to reflect, among other things, accounting estimate refinements, changes in risk profiles, changes in customers or product lines, and changes in management structure.

The Retail Banking Segment provides retail banking services including direct and indirect lending, checking, savings, money market and certificate of deposit (“CD”) accounts, safe deposit rental, automated teller machines and other traditional and electronic commerce retail banking services to individual customers through the Bank’s branch locations. The Retail Banking Segment also provides a variety of mortgage lending products to meet customer needs. The majority of the mortgage loans it originates are sold to a third party mortgage services company, which provides private label loan processing and servicing support for both loans sold and loans retained by the Bank.

The Commercial Banking Segment provides commercial banking services including lending, business checking and deposits, treasury management and other traditional as well as electronic commerce commercial banking services to middle market and small business customers through the Bank’s branch locations.

The Treasury segment is responsible for managing the investment portfolio, acquiring wholesale funding for loan activity and assisting in the management of the Company’s liquidity and interest rate risk. Information reported internally for performance assessment follows:

	Three Months Ended September 30, 2011				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$ 1,918	\$ 5,476	\$(411)	\$(106)	\$ 6,877
Other revenue	2,111	229	—	226	2,566
Other expense	2,607	5,129	45	3,906	11,687
Noncash items					
Depreciation	270	—	—	190	460
Provision for loan losses	179	2,221	—	—	2,400
Other intangibles	250	—	—	—	250
Net allocations	1,200	2,489	287	(3,976)	—
Income tax benefit	13	(597)	(22)	—	(606)
Segment profit (loss)	\$(490)	\$(3,537)	\$(721)	\$—	\$(4,748)
Segment assets	\$ 178,774	\$ 496,275	\$ 267,110	\$ 66,794	\$ 1,008,953
	Three Months Ended September 30, 2010				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$ 1,197	\$ 5,929	\$ 497	\$(484)	\$ 7,139

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Other revenue	2,292	431	401	303	3,427
Other expense	2,555	1,061	52	4,510	8,178
Noncash items					
Depreciation	541	2	—	251	794
Provision for loan losses	—	7,250	—	—	7,250
Other intangibles	307	—	—	—	307
Net allocations	1,483	3,020	439	(4,942)	—
Income tax expense (benefit)	648	10,026	(234)	—	10,440
Segment profit (loss)	\$(2,045)	\$(14,999)	\$641	\$—	\$(16,403)
Goodwill	\$7,784	\$8,096	\$—	\$—	\$15,880
Segment assets	\$200,119	\$597,230	\$282,056	\$100,279	\$1,179,684

20.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 7. Segment Information (Continued)

	Nine Months Ended September 30, 2011				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$5,922	\$17,293	\$(1,537)	\$(360)	\$21,318
Other revenue	6,008	681	(120)	805	7,374
Other expense	7,960	7,555	132	12,932	28,579
Noncash items					
Depreciation	818	1	—	587	1,406
Provision for loan losses	1,024	8,876	—	—	9,900
Other intangibles	789	—	—	—	789
Net allocations	3,976	8,096	1,002	(13,074)	—
Income tax benefit	(14)	(1,181)	(157)	—	(1,352)
Segment profit (loss)	\$(2,623)	\$(5,373)	\$(2,634)	\$—	\$(10,630)
Segment assets	\$178,774	\$496,275	\$267,110	\$66,794	\$1,008,953
	Nine Months Ended September 30, 2010				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$3,420	\$18,844	\$2,252	\$(1,720)	\$22,796
Other revenue	7,781	1,013	(2,109)	870	7,555
Other expense	8,263	4,419	158	13,641	26,481
Noncash items					
Depreciation	1,162	6	—	759	1,927
Provision for loan losses	—	24,150	—	—	24,150
Other intangibles	967	—	—	—	967
Net allocations	5,170	8,732	1,348	(15,250)	—
Income tax expense (benefit)	(615)	4,835	(806)	—	3,414
Segment profit (loss)	\$(3,746)	\$(22,285)	\$(557)	\$—	\$(26,588)
Goodwill	\$7,784	\$8,096	\$—	\$—	\$15,880
Segment assets	\$200,119	\$597,230	\$282,056	\$100,279	\$1,179,684

Note 8. Borrowed Funds and Debt Obligations

As of September 30, 2011, the Company has \$10.3 million outstanding per a loan agreement dated March 31, 2008. This original agreement was entered into with Bank of America and consisted of three credit facilities: a secured revolving line of credit, a secured term facility, and a subordinated debt. In February 2009, the loan agreement on the revolving line of credit was amended resulting in an aggregate principal amount of \$20.3 million. The first credit facility consisted of a \$10.0 million secured revolving line of credit which matured on June 30, 2009 and was not renewed by Bank of America. The second credit facility consists of a \$0.3 million secured term facility, which will

mature in March 31, 2015. The third credit facility consists of \$10.0 million in subordinated debt, which also matures in March 31, 2015. On December 14, 2009, Bank of America transferred to Cole Taylor Bank all rights, title, interest in to and under the loan agreements dated March 31, 2008. Repayment of each of the remaining two credit facilities is interest only on a quarterly basis, with the principal amount of the loan due at maturity. The term credit facility is secured by a pledge of the stock of the Bank. The subordinated debt credit facility is unsecured and is intended to qualify as Tier II capital for regulatory purposes. However, the amount included in Tier II capital has been reduced by 40% as of September 30, 2011 due to a sub-debt phase-out provision and will be further reduced by 20% in each of the next three years. The outstanding balance of the debt agreements was \$10.3 million as of September 30, 2011 and December 31, 2010. The Company requires regulatory approval in order to make the quarterly interest payments under our debt agreements as described in Note 13.

On March 7, 2011, the Company entered into an amendment with the lender, which modified the covenant relating to capitalization at the parent and bank level so that the Company returned to full compliance with the terms of its credit agreement. The amendment contains customary covenants, including but not limited to, the Company and the Bank's maintenance of its status as adequately capitalized and the Bank's minimum allowance for loan losses to total loans of 3.00%. The Company was in compliance with all covenants, with the exception of the tier 1 leverage ratio, and all payments remain current at September 30, 2011. A covenant waiver was received from the lender as of September 30, 2011, and all other terms and covenants in the loan agreement will remain unchanged.

21.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 8. Borrowed Funds and Debt Obligations (Continued)

Additionally, the Company has a note outstanding to an individual with an imputed interest rate of 5.25% maturing October 24, 2012 from a prior acquisition. The balance as of September 30, 2011 and December 31, 2010 was \$0.3 million and \$0.4 million, respectively.

Note 9. 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 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.

Pooled Trust Preferred Collateralized Debt Obligations ("CDO"). The assets included in Level 3 are CDOs. Due to the decline in the level of observable inputs and market activity for trust preferred CDOs, the Company uses an internal other-than-temporary impairment ("OTTI") evaluation model to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the quarter. The OTTI model considers the structure and term of each CDO and the financial condition of the underlying issuers. Specifically, the model

details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust-preferred securities. Assumptions used in the model include expected future default rates and prepayments.

22.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

We assume no recoveries on defaults and treat all interest payment deferrals as defaults. In addition, we use the model to “stress” each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company’s note class.

Each issuer in the tranche was analyzed using the Fitch ratings for the quarter and key financial data so that the issuer in each tranche can be divided between a pool of “performing” company and “under-performing” company. A factor is applied to the under-performing company for each quarter to project additional defaults and deferrals to be factored into the cash flow model. Three internal scenarios were developed that had different assumptions regarding the impact of the economic environment on additional defaults and deferrals for the upcoming quarters. On average, the additional deferrals for a specific CDO that were factored in to our calculation ranged between 6% and 17% of the performing balance of the instrument between the three scenarios. All of the additional deferrals for the three scenarios are factored in to the cash flow for each tranche. A discount factor to be added to the London Interbank Offered Rate (“LIBOR”) was developed for each specific tranche and incorporated to arrive at the discount rate for the CDO. The factor ranged from 200 basis points to 600 basis points based over LIBOR on the rating of the CDO and its gross-up factor for risk based capital. These rates were applied to calculate the net present value of the cash flows. The results of the three net present value calculations were weighted based on their likelihood of occurring. The scenarios were weighted 35%, 47% and 18%.

Finally, an independent valuation of our portfolio was obtained. This was weighted as the final overall step to arrive at our valuation for September 30, 2011 using 55% for the internal weighting and 45% for the external one. Due to market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

At September 30, 2011, the Company held five pooled trust preferred CDOs with an amortized cost of \$8.1 million. These securities were rated high quality (A3 and above) at inception, but at September 30, 2011, these securities were rated as Ca, which are defined as highly speculative and/or default, with some recovery; and C, which is the lowest rating. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies.

The Company performed an analysis including evaluation for OTTI for each of the five CDOs. During the third quarter of 2011, our model indicated no OTTI was needed for credit impairment. Management has determined that the CDOs are deemed to be only temporarily impaired at quarter-end due to the projected cash flows adjusted for the possible further deterioration is sufficient to return the outstanding principal balance with interest at the stated rate. Specific ratings of our CDOs that have incurred OTTI during 2011 are listed below:

Issue	Tranche	Gross Amortized Cost	Fair Value	Gross Unrealized Gains/(Losses)	Ratings as of Sep 30, 2011 Moody's/S&P	Ratings as of Dec 31, 2010 Moody's/S&P
P r e T S L XIII	B-3	385	244	(141)	Ca / NR	Ca / NR
P r e T S L XVI	B	—	—	—	Ca / NR	Ca / NR
	C-2	—	—	—	Ca / NR	Ca / NR

P r e T S L
XXIV

\$ 385 \$ 244 \$ (141)

23.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

Private Label CMOs. Private label CMOs were also evaluated using management's internal analysis process. These securities were rated high quality (A3 and above) at inception and are primarily supported by prime collateral, although the RAST Series security has some alt-a collateral support. During the third quarter of 2011, our model indicated no OTTI on these CMOs, with an aggregate cost basis of \$1.8 million.

Single Issue Trust Preferred. During the third quarter of 2010, the Company purchased \$3.8 million of single-issue trust preferred securities that are classified as available for sale. With respect to these securities, the Company looks at rating agency actions, payment history, the capital levels of the banks and the financial performance as filed in regulatory reports. During the quarter, \$0.8 million of these securities were called, leaving the Company with an investment of \$3.0 million.

The Company's unrealized losses on other securities relate primarily to its investment in CDO securities. The decline in fair value is primarily attributable to temporary illiquidity and the financial crisis affecting these markets and not necessarily the expected cash flows of the individual securities. Due to the illiquidity in the market, it is unlikely that the Company would be able to recover its investment in these securities if the Company sold the securities at this time. The Company does not intend to sell these securities nor is it more likely than not the Company will be required to sell these securities before its anticipated recovery.

Other Real Estate Owned ("OREO")

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 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.

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)
September 30, 2011				
U.S. government agencies	\$3,285	\$ —	\$3,285	\$ —
State and political subdivisions	21,361	—	21,361	—
	179,098	—	179,098	—

U.S. government agency residential mortgage-backed securities				
Collateralized mortgage obligations:				
Agency	16,823	—	16,823	—
Private Label	2,178	—	—	2,178
Equities	2,520	—	2,520	—
Collateralized debt obligations:				
Single Issue	3,071	—	3,071	—
Pooled	5,763	—	—	5,763
Corporate	1,987	—	1,987	—
Available-for-sale securities	\$236,086	\$ —	\$228,145	\$ 7,941

24.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

	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, 2010				
U.S. government agencies	\$7,085	\$ —	\$7,085	\$—
State and political subdivisions	28,348	—	28,348	—
U.S. government agency residential mortgage-backed securities	147,846	—	147,846	—
Collateralized mortgage obligations:				
Agency	20,735	—	20,735	—
Private Label	4,936	—	—	4,936
Equities	2,254	—	2,254	—
Collateralized debt obligations:				
Single Issue	3,849	—	3,849	—
Pooled	4,422	—	—	4,422
Available-for-sale securities	\$219,475	\$ —	\$210,117	\$9,358

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs

The following table reconciles the beginning and ending balances of the assets of the Company that are measured at fair value on a recurring basis using significant unobservable inputs. There currently are no liabilities of the Company that are measured at fair value on a recurring basis using significant unobservable inputs.

	Securities Available for Sale			
	2011		2010	
	CDOs	CMOs	CDOs	CMOs
Beginning balance, July 1	\$5,470	\$3,004	\$7,128	\$7,999
Transfers into Level 3	—	—	—	—
Total gains or losses (realized/unrealized) included in earnings				
Security impairment	—	—	(498)	—
Capitalized interest/(payments received)	(1)	(955)	30	(1,393)
Discount/(premium) amortization	—	1	—	1
Included in other comprehensive income	294	128	(234)	105
Ending Balance, September 30	\$5,763	\$2,178	\$6,426	\$6,712

	Securities Available for Sale			
	2011		2010	
	CDOs	CMOs	CDOs	CMOs

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Beginning balance, January 1	\$4,422	\$4,936	\$9,758	\$11,166
Transfers into Level 3	—	—	—	—
Total gains or losses (realized/unrealized) included in earnings				
Security impairment	(499)	—	(3,883)	(139)
Capitalized interest/(payments received)	14	(3,117)	30	(4,442)
Discount/(premium) amortization	3	2	71	2
Included in other comprehensive income	1,823	357	450	125
Ending Balance, September 30	\$5,763	\$2,178	\$6,426	\$6,712

25.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

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)
September 30, 2011				
Impaired loans				
Commercial				
Closed End	\$ 746	\$ —	\$ —	\$ 746
Line of Credit	984	—	—	984
Agricultural & AGRE	—	—	—	—
CRE - Construction, land & development	16,702	—	—	16,702
CRE – all other				
Owner Occupied	10,819	—	—	10,819
Non-owner occupied	9,414	—	—	9,414
1-4 family residential				
Senior lien	6,123	—	—	6,123
Junior lien & lines of credit	373	—	—	373
Consumer	—	—	—	—
OREO property				
Commercial				
Closed End	\$ —	\$ —	\$ —	\$ —
Line of Credit	—	—	—	—
Agricultural & AGRE	—	—	—	—
CRE - Construction, land & development	3,152	—	—	3,152
CRE – all other				
Owner Occupied	3,034	—	—	3,034
Non-owner occupied	180	—	—	180
1-4 family residential				
Senior lien	710	—	—	710
Junior lien & lines of credit	—	—	—	—
Consumer	—	—	—	—

Quoted Prices in
Active Markets

Significant
Other

Significant

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

	Carrying Amount	For Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2010				
Impaired loans				
Commercial	\$ 1,715	\$ —	\$ —	\$ 1,715
Agricultural & AGRE	4,120	—	—	4,120
Construction, land & development	31,666	—	—	31,666
Commercial RE	23,036	—	—	23,036
1-4 family residential	10,264	—	—	10,264
OREO property				
Construction, land & development	9,317	—	—	9,317
Commercial RE	3,284	—	—	3,284
1-4 family residential	178	—	—	178

26.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

The fair value of impaired loans with specific loan loss allocations is generally based on the most recent real estate appraisals with discounts applied or discounted cash flows. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Judgments used to determine appraised values can be subjective, discounts applied can be significant, as the timing of expected cash flows can be fluid. All of these factors result in a Level 3 classification of the inputs for determining fair value. Impaired loans had a carrying amount of \$55.6 million with specific loan loss allocations of \$10.4 million in third quarter 2011, resulting in a decrease in specific related allowance for loan losses of \$7.2 million when compared to December 31, 2010 and a decrease of \$2.2 million compared to June 30, 2011. At December 31, 2010, impaired loans had a carrying amount of \$88.5 million with specific loan loss allocations of \$17.7 million, which resulted in an increase in specific related allowance for loan losses of \$9.1 million in 2010.

At September 30, 2011, OREO properties had a net carrying value of \$7.1 million, comprised of \$14.2 million with a valuation allowance of \$7.1 million. This resulted in a charge to earnings of \$4.5 million for the third quarter 2011 and a charge of \$5.8 million for the nine months ending September 30, 2011. At December 31, 2010, OREO properties had a net carrying value of \$12.8 million, comprised of \$17.9 million with a valuation allowance of \$5.1 million.

The Methods and Assumptions Used to Estimate Fair Value

The carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on the methods described above.

The carrying value and fair value of the subordinated debentures issued to capital trusts are estimated using market data for similarly risk weighted items to value them. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, the fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. The fair value of loans held for sale is based on market quotes. The fair value of debt and redeemable stock is based on current rates for similar financing. It was not practicable to determine the fair value of the restricted securities due to restrictions placed on its transferability. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

The estimated fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$63,296	\$63,296	\$82,945	\$82,945
Securities	236,086	236,086	219,475	219,475
Restricted securities	9,150	N/A	10,470	N/A
Net loans	597,136	580,795	690,360	657,529
Accrued interest receivable	3,417	3,417	3,860	3,860
Financial liabilities				
Deposits	862,117	863,885	931,105	935,371
Federal funds purchased and securities sold under agreements to repurchase	21,364	21,364	16,188	16,188
Federal Home Loan Bank advances	48,058	49,843	71,059	73,170
Notes payable	10,533	9,130	10,623	10,796
Subordinated debentures	20,620	13,777	20,620	9,865
Series B mandatory redeemable preferred stock	268	268	268	268
Accrued interest payable	3,832	3,832	3,962	3,962

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, customer goodwill and similar items.

Note 10. Participation in the Treasury Capital Purchase Program

On January 9, 2009, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("U.S. Treasury"), pursuant to which the Company sold 32,668 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series C, par value \$1.00 per share and liquidation value \$1,000 per share (the "Series C Preferred Stock") and also issued warrants (the "Warrants") to the U.S. Treasury to acquire an additional 508,320 shares of the Company's common stock at an exercise price of \$9.64 per share.

The Series C Preferred Stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series C Preferred Stock may be redeemed by the Company at any time subject to consultation with the Federal Reserve. The Series C Preferred Stock is not subject to any

contractual restrictions on transfer.

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Common Stock will be subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share \$0.14 declared on the Common Stock prior to October 28, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also will be restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Preferred Stock and (b) the date on which the Preferred Stock has been redeemed in whole or the U.S. Treasury has transferred all of the Preferred Stock to third parties.

28.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 10. Participation in the Treasury Capital Purchase Program (Continued)

On August 10, 2009, the Company announced that it would defer scheduled dividend payments on the Series C, fixed rate cumulative, perpetual preferred stock. Under the Securities Purchase Agreement entered into with the U.S. Treasury under the TARP program, if a company defers six dividend payments payable to the U.S. Treasury, the U.S. Treasury has the right to appoint up to two directors to its board of directors. As of September 30, 2011 one director has been appointed. The Company is accruing the dividends in accordance to GAAP and the terms of the program. At September 30, 2011 and December 31, 2010 the amounts accrued are \$4.1 million and \$2.7 million, respectively. The Company may, at its option with regulatory concurrence, redeem the deferred securities at their liquidation preference plus accrued and unpaid dividends at any time.

Note 11. Goodwill and Intangible Assets

Goodwill

Goodwill is tested annually for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit, which for the Company is the Bank. The first step is to screen for potential impairment and the second step measures the amount of impairment, if any.

Based upon impairment testing in the fourth quarter of 2010, Centrue Bank indicated potential impairment and was subjected to the second step of goodwill impairment testing. As a result of applying the second step of the impairment test, all remaining goodwill associated with our banking operations was fully impaired, totaling \$15.9 million.

The change in balance of goodwill during the year is as follows:

	September 30, 2011	December 31, 2010
Beginning of period	\$ —	\$ 15,880
Impairment recorded December 31, 2010	—	(15,880)
End of period	\$ —	\$ —

Acquired intangible assets were as follows as of the quarter ending:

	September 30, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	\$ 14,124	\$ 9,201	\$ 14,124	\$ 8,412
Missouri charter	581	—	581	—

Total	\$ 14,705	\$ 9,201	\$ 14,705	\$ 8,412
-------	-----------	----------	-----------	----------

The core deposit intangible asset recorded in the 2006 merger with former Centrue Financial Corporation was \$13.0 million. Aggregate amortization expense was \$0.3 million for the three months ended September 30, 2011 and 2010. Aggregate amortization expense was \$0.8 million and \$1.0 million for the nine months ended September 30, 2011 and 2010, respectively.

29.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 11. Goodwill and Intangible Assets (Continued)

Estimated amortization expense for subsequent periods is as follows:

Remaining quarters in 2011	\$240
2012	951
2013	951
2014	951
2015	951
Thereafter	879

Note 12. 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 (2) the allowance for loan losses and (3) fair value adjustments or impairment write-downs related to securities.

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.

After evaluating all of the factors previously summarized and considering the weight of the positive evidence compared to the negative evidence, the Company determined a full valuation adjustment was necessary as of December 31, 2010 and September 30, 2011. A three year cumulative loss position and continued near-term losses represent negative evidence that cannot be overcome with future taxable income.

Below is a summary of items included in the deferred tax inventory as of September 30, 2011 and December 31, 2010:

	Balance at 09/30/11	Balance at 12/31/10	Change
Allowance for loan loss	\$9,005	\$12,172	\$(3,167)
Impairment on securities portfolio	8,058	7,865	193
Net operating loss carryforwards	18,577	11,480	7,097
Valuation adjustments on OREO property	2,747	1,989	758
Basis adjustments from merger	(1,392)	(1,577)	185
Mortgage servicing rights	(831)	(937)	106
All other	(795)	481	(1,276)
Net deferred tax before allowance	\$35,369	\$31,473	\$3,896
Valuation allowance	(35,369)	(31,473)	(3,896)
Net deferred tax assets	\$—	\$—	\$—

30.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 13. Regulatory Matters

	Actual		To Be Adequately Capitalized		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2011						
Total capital (to risk-weighted assets)						
Centrue Financial	\$ 61,992	8.5 %	\$ 58,247	8.0 %	N/A	N/A
Centrue Bank	68,428	9.5	57,469	8.0	71,836	10.0
Tier I capital (to risk-weighted assets)						
Centrue Financial	\$ 37,526	5.2	29,124	4.0	N/A	N/A
Centrue Bank	59,272	8.3	28,734	4.0	43,102	6.0
Tier I leverage ratio (to average assets)						
Centrue Financial	\$ 37,526	3.7	40,583	4.0	N/A	N/A
Centrue Bank	59,272	5.9	40,498	4.0	50,623	5.0
As of December 31, 2010						
Total capital (to risk-weighted assets)						
Centrue Financial	\$ 76,459	9.4 %	\$ 65,422	8.0 %	N/A	N/A
Centrue Bank	78,171	9.7	64,535	8.0	80,669	10.0
Tier I capital (to risk-weighted assets)						
Centrue Financial	\$ 57,974	7.1	32,711	4.0	N/A	N/A
Centrue Bank	67,823	8.4	32,268	4.0	48,402	6.0
Tier I leverage ratio (to average assets)						
Centrue Financial	\$ 57,974	5.1	45,683	4.0	N/A	N/A
Centrue Bank	67,823	6.0	45,544	4.0	56,931	5.0

On December 18, 2009, the Bank entered into an Agreement with the Federal Reserve Bank of Chicago (“FRB”) and the Illinois Department of Financial & Professional Regulation (“IDFPR”). The Agreement describes commitments made

by the Bank to address and strengthen banking practices relating 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 has implemented enhancements to its processes to address the matters identified by the FRB and the IDFPR. The Company is in compliance with all the requirements specified in the agreement except for the Capital Plan. Management continues to aggressively pursue capital raising initiatives to comply with this provision; however, until a more definitive capital raise initiative is developed, the Company will continue to be held in noncompliance with this provision. In the meantime, the Agreement results in the Bank's ineligibility for certain actions and expedited approvals without the prior written consent and approval of the FRB and the IDFPR. These actions include, among other things, the payment of dividends by the Bank to the Company, the Company cannot pay dividends on its common or preferred shares, payments of interest or principal on subordinated debentures, note payable to Cole Taylor, and Trust Preferred securities, the Company may not increase its debt level and the Company cannot redeem or purchase any shares of its stock.

31.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 13. Regulatory Matters (Continued)

The Company has incurred net losses of \$10.6 for the first nine months of 2011 and \$65.8 million for the full year 2010 due to loan losses, reduced net interest income, security OTTI, establishing a deferred tax valuation allowance, and goodwill impairment. The Company is subject to ongoing monitoring by its regulatory agencies and requires regulatory approval in order to make the quarterly interest payments to Cole Taylor under our debt agreements. Management has sufficient cash at the parent Company and believes regulatory approval will be obtained for the remaining interest payments due in 2011. Should the Company and/or its bank subsidiary capital levels fall below “adequately capitalized”, regulatory actions may be taken including requiring us to have higher capital requirements than those required by Prompt Corrective Action regulations. During the period the Company had its Tier 1 leverage ratio fall to 3.7% which is below the “adequately-capitalized” threshold for that ratio. Management is not aware of any further regulatory actions at this time.

Note 14. Recent Accounting Developments

In April 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-2, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” (ASU 2011-2”). ASU 2011-2 clarifies the guidance for determining whether a loan restructuring constitutes a troubled debt restructuring (“TDR”) outlined in Accounting Standards Codification (“ASC”) No. 310-40, “Receivables-Troubled Debt Restructurings by Creditors”, by providing additional guidance to a creditor in making the following required assessments needed to determine whether a restructuring is a TDR: (i) whether or not a concession has been granted in a debt restructuring; (ii) whether a temporary or permanent increase in the contractual interest rate precludes the restructuring from being a TDR; (iii) whether a restructuring results in an insignificant delay in payment; (iv) whether a borrower that is not currently in payment default is experiencing financial difficulties; and (v) whether a creditor can use the effective interest rate test outlined in debtor’s guidance on restructuring of payables (ASC Topic No. 470-60-55-10) when evaluating whether or not a restructuring constitutes a TDR. ASU 2011-2 is effective for interim periods beginning on or after June 15, 2011 and will be applied retrospectively to the beginning of the annual period of adoption. Adoption of ASU 2011-2 has not had a material impact on the Company.

In January 2010, FASB issued Accounting Standards Update No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements” (“ASU 2010-6”). ASU 2010-6 required new disclosures related to transfers in and out of fair value hierarchy Levels 1 and 2, as well as certain activities for assets whose fair value is measured under the Level 3 hierarchy. ASU 2010-6 also provided amendments clarifying the level of disaggregation and disclosures about inputs and valuation techniques along with conforming amendments to the guidance on employers’ disclosures about postretirement benefit plan assets. ASU 2010-6 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of ASU 2010-6 has not had a material impact on the Company.

In May 2011, the FASB issued guidance representing the convergence of FASB and international accounting standards on fair value measurement. The guidance provided was primarily meant to clarify existing guidance; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning on or after December 15, 2011, and should be applied prospectively. Early adoption is not permitted. The

adoption of this guidance is not expected to have an effect on the Corporation's result of operations or financial position but may require expansion of the Corporation's disclosures.

32.

Centrue Financial Corporation
Notes to Unaudited Consolidated Financial Statements
(Table Amounts In Thousands, Except Share Data)

Note 14. Recent Accounting Developments (Continued)

In June 2011, the FASB amended existing guidance relating to presentation of other comprehensive income in a convergence effort with international accounting standards. This guidance eliminates the option to present the components of comprehensive income as a part of the statement of changes in stockholders' equity and requires a consecutive presentation of net income and other comprehensive income, and a reconciliation of the components of other comprehensive income. Similar to the requirements of existing guidance, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statements where the components of net income and OCI are presented. The amendments in this guidance should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted and the amendments do not require any transition disclosures. The adoption of this guidance will not have an effect on the Corporation's result of operations or financial position but will require expansion of the Corporation's financial statement presentation.

33.

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 nine months ended September 30, 2011 as compared to the same period in 2010. 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.

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. Those critical accounting policies that are of particular significance to the Company are discussed in Note 1 of the Company's 2010 Annual Report on Form 10-K.

Securities: Securities are classified as available-for-sale when the Company 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 the Company'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 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.

34.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Allowance for Loan Losses: The allowance for loan losses is a reserve established through a provision for probable loan losses charged to expense, which represents management's estimate of probable 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 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.

Other Real Estate Owned: Other real estate owned includes properties acquired in partial or total satisfaction of certain loans. Properties are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the fair value, which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Any write-downs in the carrying value of a property at the time of acquisition are charged

against the allowance 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.

35.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except 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.

Results of Operations

Net Income (Loss)

Net income (loss) for the three months ended September 30, 2011 equaled \$(4.7) million or \$(0.87) per common diluted share as compared to \$(2.4) million or \$(0.48) per common diluted share in the second quarter of 2011 and \$(16.4) million or \$(2.79) per common diluted share in the third quarter of 2010. For the first nine months of 2011, net income (loss) was \$(10.6) million or \$(2.01) per common diluted share as compared to \$(26.6) million or \$(4.64) per common diluted share for the same period in 2010.

The results for the third quarter 2011 were adversely impacted by a \$2.4 million provision for loan losses largely related to asset quality deterioration in the Company's land development, construction and commercial real estate portfolios. Also contributing to the loss was a \$4.5 million reduction in carrying value of OREO properties reflective of a continued decline in market values and updated appraisals. During the third quarter of 2010, the Company recorded a \$7.3 million provision for loan losses, \$0.4 million OREO valuation adjustment and \$0.5 million non-cash impairment charge on securities.

Net Interest Income/ Margin

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 yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds referred to as "rate change." The following table details each category of average amounts outstanding for interest-earning assets and interest-bearing liabilities, average rate earned on all interest-earning assets, average rate paid on all interest-bearing liabilities and the net yield on average interest-earning assets. In addition, the table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

Fully tax equivalent net interest income for the third quarter 2011 decreased 4.1% to \$7.0 million as compared to \$7.3 million for the same period in 2010. The decrease in net interest income from 2011 was primarily due to average loan volume decline and higher premium amortization due to increased prepayments and lower coupon income with

adjustable resets in the security portfolio. Positively impacting net interest income were lower cost of funds.

36.

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 net interest margin was 3.14% for the third quarter of 2011, representing increases of 1 basis point from 3.13% recorded in the second quarter of 2011 and 45 basis points from 2.69% reported in the third quarter of 2010. The increase in the third quarter 2011 net interest margin, as compared to the same period in 2010, was primarily related to a reduction in the Company's cost of interest-bearing liabilities due to maturity of higher rate time deposits and the overall decline in market interest rates. Adversely impacting the margin was the cost of retaining surplus liquidity, lower average volume of higher-yielding loans, increased premium amortization due to higher prepayments and lower coupon income with adjustable resets in the securities portfolio. Due largely to the protracted economic downturn, the lost interest income on nonaccrual loans and the Company's interest rate sensitivity, the margin will likely remain under pressure throughout 2011.

Fully tax equivalent net interest income for the nine months ended September 30, 2011 totaled \$21.7 million, representing a decrease of \$1.6 million or 6.9% compared to the \$23.3 million earned during the same period in 2010. The net interest margin was 3.12% for the nine months ended September 30, 2011, representing an increase of 33 basis points from 2.79% recorded in the same period of 2010. The decrease of net interest income and the increase in net interest margin was driven by the same factors impacting the third quarter.

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

	For the Three Months Ended September 30,									
	2011		2010		Interest	Average	Change	Due To:		Net
	Average	Interest	Average	Interest	Average	Rate	Volume	Rate		
	Balance	Income/Average	Balance	Income/	Rate					
		ExpenseRate		Expense	Rate					
ASSETS										
Interest-earning assets										
Interest-earning deposits	\$2,803	\$18	2.59 %	\$5,209	\$18	1.39 %	\$(10)	\$10		\$—
Securities										
Taxable	209,010	1,044	1.98	261,093	1,367	2.08	(261)	(62)		(323)
Non-taxable	17,526	243	5.50	29,270	384	5.20	(160)	19		(141)
Total securities (tax equivalent)	226,536	1,287	2.26	290,363	1,751	2.39	(421)	(43)		(464)
Federal funds sold	10,675	22	0.80	620	8	5.18	25	(11)		14
Loans										
Commercial	115,924	1,598	5.47	128,435	1,854	5.73	(169)	(87)		(256)
Real estate	524,050	6,649	5.03	647,874	7,935	4.86	(1,509)	223		(1,286)
Installment and other	2,710	70	10.21	4,074	92	8.98	(34)	12		(22)
Gross loans (tax equivalent)	642,684	8,317	5.13	780,383	9,881	5.02	(1,712)	148		(1,564)
Total interest-earnings assets	882,698	9,644	4.34	1,076,575	11,658	4.30	(2,118)	104		(2,014)
Noninterest-earning assets										
Cash and cash equivalents	55,275			44,545						
Premises and equipment, net	24,766			26,688						
Other assets	58,230			66,723						

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Total nonearning assets	138,271			137,956						
Total assets	\$ 1,020,969			\$ 1,214,531						
LIABILITIES & STOCKHOLDERS' EQUITY										
Interest-bearing liabilities										
NOW accounts	85,456	50	0.23	99,931	60	0.24	(9)	(1)	(10)	
Money market accounts	127,554	205	0.64	133,091	255	0.76	(4)	(46)	(50)	
Savings deposits	95,764	36	0.15	91,736	34	0.15	2	—	2	
Time deposits	450,130	1,646	1.45	541,171	3,068	2.25	(325)	(1,097)	(1,422)	
Federal funds purchased and repurchase agreements	17,732	11	0.24	11,697	7	0.25	4	—	4	
Advances from FHLB	49,417	347	2.79	75,516	572	3.01	(182)	(43)	(225)	
Notes payable	31,944	370	4.61	31,926	373	4.63	1	(4)	(3)	
Total interest-bearing liabilities	857,997	2,665	1.23	985,068	4,369	1.76	(513)	(1,191)	(1,704)	
Noninterest-bearing liabilities										
Noninterest-bearing deposits	112,384			115,550						
Other liabilities	13,643			13,172						
Total noninterest-bearing liabilities	126,027			128,722						
Stockholders' equity	36,945			100,741						
Total liabilities and stockholders' equity	\$ 1,020,969			\$ 1,214,531						
Net interest income (tax equivalent)		\$ 6,979			\$ 7,289		\$ (1,605)	\$ 1,295	\$ (310)	
Net interest income (tax equivalent) to total earning assets			3.14 %			2.69 %				
Interest-bearing liabilities to earning assets	97.20	%		91.50	%					

- (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 non-taxable securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
- (3) Nonaccrual loans are included in the average balances; overdraft loans are excluded in the balances.
- (4) Loan fees are included in the specific loan category.

38.

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

	For the Nine Months Ended September 30,									
	2011		2010		Interest		Interest		Change Due To:	
	Average	Interest	Average	Average	Income/	Average	Volume	Rate		
	Balance	Expense	Rate	Balance	Expense	Rate				
ASSETS										
Interest-earning assets										
Interest-earning deposits	\$2,922	\$60	2.75 %	\$4,219	\$55	1.74%	\$(18)	\$23		\$5
Securities										
Taxable	210,283	3,117	1.98	257,034	4,690	2.44	(753)	(820)		(1,573)
Non-taxable	20,815	849	5.46	30,884	1,219	5.28	(407)	37		(370)
Total securities (tax equivalent)	231,098	3,966	2.29	287,918	5,909	2.74	(1,160)	(783)		(1,943)
Federal funds sold	7,424	48	0.86	2,525	37	1.96	38	(27)		11
Loans										
Commercial	133,022	5,392	5.42	136,084	5,726	5.63	(117)	(217)		(334)
Real estate	551,817	20,881	5.06	682,244	25,962	5.09	(4,900)	(181)		(5,081)
Installment and other	2,552	206	10.77	4,051	268	8.85	(66)	4		(62)
Gross loans (tax equivalent)	687,391	26,479	5.15	822,379	31,956	5.20	(5,083)	(394)		(5,477)
Total interest-earnings assets	928,835	30,553	4.40	1,117,041	37,957	4.54	(6,223)	(1,181)		(7,404)
Noninterest-earning assets										
Cash and cash equivalents	55,630			55,288						
Premises and equipment, net	25,106			28,540						
Other assets	50,308			65,532						

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Total nonearning assets	131,044			149,360						
Total assets	\$ 1,059,879			\$ 1,266,401						
LIABILITIES & STOCKHOLDERS' EQUITY										
Interest-bearing liabilities										
NOW accounts	85,188	141	0.22	99,646	253	0.34	(23)	(89)	(112)	
Money market accounts	129,658	695	0.72	133,892	979	0.98	5	(289)	(284)	
Savings deposits	97,706	109	0.15	93,577	144	0.21	10	(45)	(35)	
Time deposits	474,692	5,692	1.60	582,660	10,460	2.40	(1,301)	(3,467)	(4,768)	
Federal funds purchased and repurchase										
Agreements	17,707	32	0.24	13,492	37	0.37	10	(15)	(5)	
Advances from FHLB	51,586	1,114	2.89	77,823	1,733	2.98	(563)	(56)	(619)	
Notes payable	31,824	1,103	4.64	32,029	1,074	4.48	1	28	29	
Total interest-bearing liabilities	888,361	8,886	1.34	1,033,119	14,680	1.90	(1,861)	(3,933)	(5,794)	
Noninterest-bearing liabilities										
Noninterest-bearing deposits	118,038			115,302						
Other liabilities	14,361			12,761						
Total noninterest-bearing liabilities	132,399			128,063						
Stockholders' equity	39,119			105,219						
Total liabilities and stockholders' equity	\$ 1,059,879			\$ 1,266,401						
Net interest income (tax equivalent)		\$ 21,667			\$ 23,277		\$ (4,362)	\$ 2,752	\$ (1,610)	
Net interest income (tax equivalent) to total earning assets			3.12 %			2.79 %				
Interest-bearing liabilities to earning assets	95.64	%		92.49	%					

- (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 non-taxable securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
- (3) Nonaccrual loans are included in the average balances; overdraft loans are excluded in the balances.
- (4) Loan fees are included in the specific loan category.

39.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

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.

The provision for loan losses for third quarter 2011 was \$2.4 million, compared to \$3.3 million and \$7.3 million for second quarter 2011 and third quarter 2010, respectively. The decline in provision expense was warranted based on decreases in the level of nonperforming loans, decreases in the level of problem loans, and a reduction in the pace of performing loans moving to problem loan classifications. The decline in provision taken during the third quarter of 2011 was driven by:

lowering levels of nonperforming loans and less new credits that migrated to nonperforming status;

current quarter charge-offs decreased significantly from the prior quarter;

declining trend in past due loans;

some stabilization of collateral values.

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. Many of these relationships continued to show duress due to the ongoing economic downturn being experienced for this industry that existed throughout the third quarter 2011 and is projected to continue through the remainder of the year. Should the economic climate deteriorate from current levels, more borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies will rise requiring further increases in the provision for loan losses.

Noninterest Income

Noninterest income consists of a wide variety of fee-based revenues from bank-related service charges on deposits, mortgage revenues and increases in cash surrender value on bank-owned life insurance. The following table summarizes the Company's noninterest income:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Service charges	\$1,232	\$1,215	\$3,483	\$3,934
Mortgage banking income	341	628	1,050	1,114
Electronic banking services	552	516	1,644	1,528
Bank-owned life insurance	256	261	755	773

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Other income	302	204	664	858
Subtotal recurring noninterest income	2,683	2,824	7,596	8,207
Securities gains	—	899	379	1,913
Net impairment on securities	—	(498)	(499)	(4,022)
Valuation adjustment mortgage servicing rights	(89)	—	(89)	(225)
Gain on sale of OREO	(12)	24	(60)	34
Gain on sale of other assets	(16)	178	47	1,648
Total noninterest income	\$2,566	\$3,427	\$7,374	\$7,555

40.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Noninterest income totaled \$2.6 million for the three months ended September 30, 2011, compared to \$3.4 million for the same period in 2010. Excluding credit impairment charges on CDO securities and gains related to the sale of OREO and other assets from both periods, noninterest income decreased \$0.1 million or 3.6%. This \$0.1 million decrease was primarily related to a decrease in mortgage banking income.

For the nine months ended September 30, 2011, total noninterest income was \$7.4 million compared to \$7.6 million for the same period in 2010. This was a \$0.2 million or 2.6% decrease. Recurring noninterest income decreased \$0.6 million or 7.3% primarily in service charges due to reduced consumer spending and its impact on overdraft and NSF fees, along with lower mortgage banking income.

Noninterest Expense

Noninterest expense is comprised primarily of compensation and employee benefits, occupancy and other operating expense. The following table summarizes the Company's noninterest expense:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salaries and employee benefits	\$3,505	\$3,547	\$10,598	\$11,019
Occupancy expense, net	712	647	2,136	2,378
Furniture and equipment expenses	407	642	1,267	1,685
Marketing	56	91	183	280
Supplies and printing	67	106	208	302
Telephone	229	194	637	567
Data processing	381	388	1,120	1,167
FDIC insurance	323	842	1,997	2,549
Loan processing and collection costs	495	675	1,597	1,789
Amortization of intangible assets	250	307	789	967
Other expenses	1,499	1,462	4,472	4,307
Subtotal recurring noninterest expenses	7,924	8,901	25,004	27,010
OREO valuation adjustment	4,473	378	5,770	2,365
Total noninterest expense	\$12,397	\$9,279	\$30,774	\$29,375

Total noninterest expense for the third quarter of 2011 was \$12.4 million, compared to \$9.3 million recorded during the same period in 2010. Excluding OREO valuation adjustments from both periods, noninterest expense levels decreased by \$1.0 million, or 11.2%. This \$1.0 million decline in expenses was spread over various categories, including salaries and employee benefits, furniture and equipment, marketing, supplies, FDIC expense, loan processing and collection costs and amortization expense.

Noninterest expense totaled \$30.8 million for the nine months ended September 30, 2011 increasing by \$1.4 million or 4.8% from the same period in 2010. Excluding OREO valuation adjustments from both periods, noninterest levels decreased \$2.0 million or 7.4% for the first nine months of 2011 as compared to 2010. The decrease was due mainly to the same reasons as expressed for the third quarter.

Applicable Income Taxes

Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The following table shows the Company's income before income taxes, as well as applicable income taxes and the effective tax rate for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Income (loss) before income taxes	\$(5,354)	\$(5,963)	\$(11,982)	\$(23,174)
Applicable income taxes	(606)	10,440	(1,352)	3,414
Effective tax rates	11.3 %	(175.1 %)	11.3 %	(14.7 %)

41.

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 Company recorded an income tax benefit of \$0.6 million and income tax expense of \$10.4 million for the three months ended September 30, 2011 and 2010, respectively. Effective tax rates equaled 11.3% and (175.1%) respectively, for such periods. The Company recorded an income tax benefit of \$1.4 million and expense of \$3.4 million for the nine months ended September 30, 2011 and 2010, respectively. Effective tax rates equaled 11.3% and (14.7%) respectively, for such periods.

The Company recorded a tax benefit of \$0.6 million allocated to the loss from continuing operations in the third quarter of 2011 and \$1.4 million on a year-to-date basis due to the following GAAP application: The calculation for the income tax provision or benefit generally does not consider the tax effects of changes in other comprehensive income, or OCI, which is a component of shareholders' equity on the balance sheet. However, an exception is provided in certain circumstances, such as when there is a full valuation allowance against net deferred tax assets, there is a loss from continuing operations and income in other components of the financial statements. In such a case, pre-tax income from other categories, such as changes in OCI, must be considered in determining a tax benefit to be allocated to the loss from continuing operations. Excluding this benefit, no tax benefit was recorded for the quarter and year-to-date due to the full deferred tax valuation allowance established as of December 31, 2010.

The Company recorded a deferred tax valuation adjustment of \$12.8 million in September 2010, which is included in the income tax expense for the three and nine months ended September 30, 2010. Excluding this item, the income tax benefit for the three and nine months ended September, 2010 would have been \$2.4 million and \$9.4 million, respectively, and the effective tax rates would have been 39.9% and 40.6%, respectively. These higher than statutory effective tax rates were due to the taxable losses generating tax benefits at the combined statutory rate of 38.6% and further increased by the tax-exempt items.

Earnings Review by Business Segment

The Company's internal reporting and planning process focuses on three primary lines of business: Retail, Commercial and Treasury. See Note 7 of the Notes to Unaudited Consolidated Financial Statements for the presentation of the condensed income statement and total assets for each Segment.

The financial information presented was derived from the Company's internal profitability reporting system that is used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies which have been developed to reflect the underlying economics of the Segments and, to the extent practicable, to portray the Segment as if it operated on a stand alone basis. Thus, each Segment, in addition to its direct revenues and expenses, assets and liabilities, includes an allocation of shared support function expenses. The Retail, Commercial and Treasury Segments also include funds transfer pricing adjustments to appropriately reflect the cost of funds on loans made and funding credits on deposits generated. Apart from these adjustments, the accounting policies used are similar to those described in Note 1 of the Notes to Consolidated Financial Statements.

Since there are no comprehensive authorities for management accounting equivalent to GAAP, the information presented is not necessarily comparable with similar information from other financial institutions. In addition, methodologies used to measure, assign and allocate certain items may change from time-to-time to reflect, among other things, accounting estimate refinements, changes in risk profiles, changes in customers or product lines and changes in management structure.

Retail Segment. The Retail Segment (“Retail”) provides retail banking services including direct lending, checking, savings, money market and certificate of deposit (“CD”) accounts, safe deposit rental, automated teller machines and other traditional and electronic commerce retail banking services to individual customers through the Bank’s branch locations in Illinois and Missouri. The Retail Segment also provides a variety of mortgage lending products to meet customer needs. The majority of the mortgage loans originated are sold to a third party mortgage services company, which provides private label loan processing and servicing support for both loans sold and loans retained by the Bank.

42.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Retail generated a loss of \$0.5 million, or 10.6% of total Segment loss, in the third quarter 2011 as compared to a loss of \$2.0 million, or 12.2% of total Segment loss, during the same period in 2010. Retail assets were \$178.8 million at September 30, 2011, \$191.4 million at December 31, 2010 and \$200.1 million as of September 30, 2010. This represented 17.7%, 17.3% and 17.0% of total consolidated assets, respectively.

Net income results for the third quarter of 2011, when compared to the same period of 2010, was negatively impacted by higher provision and lower mortgage banking revenue offset by improved net interest margin due to a lower cost of funds and lower expense levels.

Commercial Segment. The Commercial Segment ("Commercial") provides commercial banking services including lending, business checking and deposits, and other traditional as well as electronic commerce commercial banking services to middle market and small business customers through the Bank's branch locations located in Illinois and Missouri.

Commercial generated a loss of \$3.5 million, or 74.5% of total Segment loss, in the third quarter 2011 as compared to a loss of \$15.0 million, or 91.5% of total Segment loss, during the same period in 2010. Commercial assets were \$496.3 million at September 30, 2011, \$576.2 million at December 31, 2010 and \$597.2 million as of September 30, 2010. This represented 49.2%, 52.1% and 50.6% of total consolidated assets, respectively.

Net income results for the third quarter of 2011, when compared to the same period of 2010, was positively impacted by lower provision for loan losses and lower loan remediation costs. Offsetting these positive developments were lower net interest income due to average loan volume decline, the impact of nonaccrual loan interest reversals and noninterest expense levels due to OREO valuation adjustments.

Treasury Segment. The Treasury Segment ("Treasury") is responsible for managing the investment portfolio, acquiring wholesale funding for loan activity and assisting in the management of the Company's liquidity and interest rate risk.

Treasury generated a loss of \$0.7 million, or 14.9% of total Segment net loss, in the third quarter 2011 as compared to net income of \$0.6 million, during the same period in 2010. Treasury assets were \$267.1 million at September 30, 2011, \$218.0 million at December 31, 2010 and \$282.1 million at September 30, 2010. This represented 26.5%, 19.7% and 23.9% of total consolidated assets, respectively.

Net income results for the third quarter of 2011, when compared to the same period of 2010, was negatively impacted by lower net interest income due to decreased yields on the security portfolio partially offset by no non-cash impairment charge on CDO securities during the period.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Financial Condition

General

Following are highlights of the September 30, 2011 balance sheet when compared to December 31, 2010:

Securities. The primary strategic objective of the Company's securities portfolio is to assist with liquidity and interest rate risk management. In managing the securities portfolio, the Company seeks to minimize credit risk and avoid investments in sophisticated and complex investment products. The Company does not hold any securities containing sub-prime mortgages or any Fannie Mae or Freddie Mac equities.

Securities at September 30, 2011 totaled \$245.2 million as compared to \$229.9 million recorded at December 31, 2010. The \$15.3 million, or 6.7%, net increase from year-end 2010 was largely related to enhancing the Company's liquidity position through reinvesting dollars from the loan portfolio into security instruments with shorter durations.

At quarter-end, the Company held five pooled trust preferred collateralized debt obligations ("CDOs") involving three hundred issuers with a total book value of \$8.1 million and fair value of \$5.8 million. The investments in trust-preferred securities receive principal and interest payments from several pools of subordinated capital debentures with each pool containing issuances by a minimum of twenty-three banks or, in a few instances, capital notes from insurance companies. The Company did not record an Other-than-temporary impairment charge during the quarter. Should the economic climate deteriorate from current levels, the underlying credits may experience repayment difficulty, and the level of deferrals and defaults could increase requiring additional impairment charges in future quarters.

Loans. Total loans equaled \$620.5 million, representing decreases of \$40.4 million, or 6.1% and \$101.4 million or 14.0%, from June 30, 2011 and December 31, 2010, respectively. The net decrease during the third quarter 2011 was related to a combination of normal attrition, pay-downs, loan charge-offs, transfers to OREO and strategic initiatives to reduce balance sheet risk. Due to economic conditions, we have also experienced a decrease in loan demand as many borrowers continue to reduce their debt.

Deposit. Total deposits equaled \$862.1 million at September 30, 2011 compared to \$931.1 million recorded at December 31, 2010 and \$866.0 million on record at June 30, 2011. The September 30, 2011 deposit balance represents a decrease of \$69.0 million or 7.4% from December 31, 2010 and \$3.9 million or 0.5% from June 30, 2011. The net decreases from year-end 2010 were largely related to strategic initiatives to reduce higher costing time deposits and collateralized local public agency deposits. Wholesale funding decreased \$26.4 million, as \$3.4 million in maturing brokered certificates of deposits and \$23.0 million in FHLB advances were not replaced since year-end.

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 collectibility 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. It is the policy of the Company not to

renegotiate the terms of a loan because of a delinquent status. Rather, 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.

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 collectibility 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.

44.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Each of the Company's commercial loans is assigned a rating based upon an internally developed grading system. A separate credit administration department also reviews 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 an independent loan review function which is separate from the lending function and is responsible for the review of new and existing loans.

The following table summarizes nonperforming assets and loans past due 90 days or more for the previous five quarters:

	2011				2010	
	Sep 30,	Jun 30,	Mar 31,	Dec 31,	Sep 30,	
Nonaccrual loans	\$40,665	\$45,541	\$58,607	\$64,600	\$78,197	
Troubled debt restructurings	7,317	6,374	5,124	5,332	16,899	
Loans 90 days past due and still accruing interest	—	—	—	58	—	
Total nonperforming loans	47,982	51,915	63,731	69,990	95,096	
Other real estate owned	32,912	35,618	28,581	25,564	24,695	
Total nonperforming assets	\$80,894	\$87,533	\$92,312	\$95,554	\$119,791	
End of period loans	\$620,450	\$660,882	\$710,529	\$721,871	\$764,585	
Nonperforming loans to total end of period loans	7.73	% 7.86	% 8.97	% 9.70	% 12.44	%
Nonperforming assets to total end of period loans	13.04	% 13.24	% 12.99	% 13.24	% 15.67	%
Nonperforming assets to total end of period assets	8.02	% 8.56	% 8.60	% 8.65	% 10.15	%

Total nonperforming assets were \$80.9 million, or 7.8% of total assets, at September 30, 2011. This included \$7.3 million in troubled debt restructurings, \$32.9 million of OREO and \$40.7 million of nonaccrual loans. The majority of the OREO is comprised of nine parcels (land development and commercial real estate) which account for 68.6% of the balance. The Company updates these appraisals quarterly to ensure that they are properly carried at their fair market value. Approximately 56.3% of total nonaccrual loans at September 30, 2011 were concentrated in land development and construction credits. Additionally, 66.1% of total nonaccrual loans represented loans to 10 borrowers.

The level of nonperforming loans (nonaccrual, 90 days past due, and troubled debt restructurings) at September 30, 2011 decreased \$3.9 million, or 7.6%, from June 30, 2011 levels and \$47.1 million, or 49.5%, from the \$95.1 million that existed at September 30, 2010. The decrease in nonperforming loans was mainly due to the charge-off of nonaccrual loans and the transfer of the property securing the credits into OREO. The level of nonperforming loans to total end of period loans was 7.7% at September 30, 2011, as compared to 7.9% at June 30, 2011 and 12.44% at September 30, 2010. As a result of the decrease in nonperforming loans, the coverage ratio (allowance to nonperforming loan) was reported at 48.6% as of September 30, 2011 as compared to 46.9% as of June 30, 2011.

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. Through the end of the second quarter of 2011, \$37.5 million of loans had been identified by management 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 45.4% of the loans deemed impaired as of the September 30, 2011, whereas, 50.2% and 44.9% of impaired loans were performing at June 30, 2011 and December 31, 2010. Excluding nonperforming loans and loans that management has classified as impaired, there are other potential problem loans that totaled \$14.3 million at September 30, 2011 as compared to \$12.2 million and \$6.7 million at June 30, 2011 and December 31, 2010. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny and closer monitoring is prudent under the circumstances. Such classifications relate to specific concerns for each individual borrower and do not relate to any concentration risk common to all loans in this group.

45.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Allowance for Loan Losses

At June 30, 2011, the allowance for loan losses was \$23.3 million, or 3.76% of total loans, as compared to \$31.5 million, or 4.4%, at December 31, 2010 and \$43.4 million, or 5.7%, of total loans at September 30, 2010.

The Company recorded a provision of \$2.4 million to the allowance for loan losses in the third quarter 2011 which represents a decrease from prior quarters largely due to the following factors:

- lowering levels of nonperforming loans and less new credits that migrated to nonperforming status;
- current quarter charge-offs decreased significantly from the prior quarter;
- declining trend in past due loans;
- some stabilization of collateral values.

Net loan charge-offs for the third quarter of 2011 were \$3.4 million, or 0.5% of average loans, compared with \$22.3 million, or 3.0% of average loans, for the fourth quarter of 2010 and \$6.2 million, or 0.8% of average loans, for the third quarter of 2010. Loan charge-offs during the third quarter of 2011 were largely influenced by the credit performance of the Company's land development, construction and commercial real estate portfolio. These charge-offs reflect management's continuing efforts to align the carrying value of these assets with the value of underlying collateral based upon more aggressive disposition strategies and recognizing falling property values. Because these loans are collateralized by real estate, losses occur more frequently when property values are declining and borrowers are losing equity in the underlying collateral. Management believes we are recognizing losses in our portfolio through provisions and charge-offs as credit developments warrant.

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. Many of these relationships continued to show duress due to the ongoing economic downturn being experienced for this industry that existed throughout the second quarter 2011 and is projected to continue through the remainder of the year. Should the economic climate deteriorate from current levels, more borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies will rise requiring further increases in the provision for loan losses. Management believes that the allowance for loan losses at September 30, 2011 represented probable incurred credit losses inherent in the loan portfolio.

Liquidity

Due to continued uncertainty in the financial markets, liquidity strategies are conservatively postured in an effort to mitigate adverse pressure on liquidity levels. The Company continues to remain in a liquid position by reducing reliance on wholesale funding sources and a reduction in the loan portfolio, net of gross charge-offs and transfers to OREO. Total deposits equaled \$862.1 million, representing decreases of \$3.9 million, or 0.5%, from June 30, 2011 and \$69.0 million, or 7.4%, from year-end 2010. During the quarter, in-market deposits decreased \$1.5 million or 0.2%, primarily as the result of decreases in balances in certificates of deposit. Wholesale funding (brokered deposits and FHLB advances) decreased \$12.4 million or 9.5%, as borrowings from the FHLB matured and were repaid.

46.

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 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 securities sold under agreements to repurchase, overnight federal funds purchased from correspondent banks and the acceptance of short-term deposits from public entities.

The Company can borrow from the Federal Reserve Bank of Chicago's discount window to meet short-term liquidity requirements. These borrowings are secured by commercial loans. At September 30, 2011, the Company maintained borrowing capacity of \$25.2 million from the Federal Reserve Bank discount window.

The Company is also a member of the Federal Home Loan Bank-Chicago (FHLB) and as such has advances from FHLB secured generally by residential mortgage loans with a remaining borrowing capacity of \$46.6 million.

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 operating activities and investing activities offset by those used in financing activities, resulted in a net decrease in cash and cash equivalents of \$19.6 million from December 31, 2010 to September 30, 2011.

During the first nine months of 2011, the Company experienced net cash inflows of \$56.8 million in investing activities primarily due to decrease in loans and \$10.5 million in operating activities. In contrast, net cash outflows of \$86.9 million were used in financing activities largely due to the repayment on wholesale funding and decreases in deposits.

At December 31, 2010, the parent Company had \$3.0 million in cash and cash equivalents. During the first nine months of 2011, the parent Company experienced net cash outflow of \$0.6 million leaving \$2.4 million in cash and cash equivalents available at September 30, 2011. The parent Company's primary use of cash is for quarterly debt payments. These payments are estimated to be \$0.2 million for the remainder of the year and are more fully described in Notes 8 & 13.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments

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 September 30, 2011:

	Payments Due by Period				Total
	Within 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	
Contractual Obligations					
Short-term debt	\$—	\$—	\$250	\$—	\$250
Long-term debt	186	97	10,000	—	10,283
Certificates of deposit	307,827	112,886	30,647	92	451,452
Operating leases	242	504	504	252	1,502
Series B mandatory redeemable preferred stock	—	268	—	—	268
Subordinated debentures	—	—	—	20,620	20,620
FHLB advances	28,000	15,058	5,000	—	48,058
Total contractual cash obligations	\$336,255	\$128,813	\$46,401	\$20,964	\$532,433

	Amount of Commitment Expiration Per Period				Total
	Within 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	
Off-Balance Sheet Financial Instruments					
Lines of credit	\$ 91,466	\$ 6,126	\$ 2,987	\$ 23,738	\$ 124,317
Standby letters of credit	1,302	1,065	40	—	2,407
Total contractual cash obligations	\$ 92,768	\$ 7,191	\$ 3,027	\$ 23,738	\$ 126,724

Capital Resources

Stockholders' Equity

Stockholders' equity at September 30, 2011 was \$33.0 million, a decrease of \$9.9 million, or 23.1%, from \$42.9 million at December 31, 2010. The change in stockholders' equity was largely related to the operating loss incurred during the first nine months of 2011. Book value per common share equaled \$(0.03) at September 30, 2011 compared to \$1.61 at December 31, 2010.

Stock Repurchase

Restrictions set forth in the U.S. Treasury CPP program prohibit the Company from repurchasing its common stock until the CPP proceeds are paid back.

48.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except Share Data)

Capital Measurements

As reflected in the following table, the Bank was considered "adequately-capitalized" under regulatory defined capital ratios as of September 30, 2011, however the Company was "less than adequately-capitalized" due to the Tier 1 leverage ratio which was 3.7% being below the threshold for "adequately-capitalized" of 4%:

	Centrue Financial		Centrue Bank		Adequately- Capitalize	
	Sep 30, 2011	Dec 31, 2010	Sep 30, 2011	Dec 31, 2010	Thresholds	
Carrying amounts (\$millions):						
Total risk-based capital	\$ 62.0	\$ 76.5	\$ 68.4	\$ 78.2		
Tier 1 risk-based capital	\$ 37.5	\$ 58.0	\$ 59.3	\$ 67.8		
Tangible common equity	\$ (5.7)	\$ 3.5	\$ 61.1	\$ 67.5		
Capital ratios:						
Total risk-based capital	8.5 %	9.4 %	9.5 %	9.7 %	8.0 %	
Tier 1 risk-based capital	5.2 %	7.1 %	8.3 %	8.4 %	4.0 %	
Tier 1 leverage ratio	3.7 %	5.1 %	5.9 %	6.0 %	4.0 %	

Total capital and some corresponding capital ratios decreased during the third quarter 2011 due to net operating losses and a reduction in tier II capital caused by a sub-debt phase-out provision.

The Company is in compliance with all the requirements specified in the agreement with the FRB and IDFPR except for the Capital Plan. Management continues to aggressively pursue capital raising initiatives to comply with this provision; however, until a more definitive capital raise initiative is developed, the Company will continue to be held in noncompliance with this provision.

Recent Accounting Developments

See Note 14 to the Unaudited Consolidated Financial Statements for information concerning recent accounting developments.

Pending Branch Sale

On July 26, 2011, the Bank entered into a Branch Purchase and Assumption Agreement with Marine Bank for the sale of the branch located in Champaign, Illinois. The scheduled closing date is November 18, 2011. Approximately \$11.0 million in loans and \$24.0 million in deposits will be sold, as well as the premises and equipment. The Bank has sufficient liquidity in place to complete the sale.

Centrue Financial Corporation

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Table Amounts In Thousands, Except 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.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could effect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any forward-looking statements.

Among the factors that could have an impact on the Company's ability to achieve operating results and the growth plan goals are as follows:

- management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of the Company's net interest income;
- fluctuations in the value of the Company's investment securities;
- the Company's ability to ultimately collect on any downgraded loan relationships;
- the Company's ability to respond and adapt to economic conditions in our geographic market;
- the Company's ability to adapt successfully to technological changes to compete effectively in the marketplace;
- credit risks and risks from concentrations (by geographic area and by industry) within the Company's loan portfolio and individual large loans;
- volatility of rate sensitive deposits;
- operational risks, including data processing system failures or fraud;
- asset/liability matching risks and liquidity risks;
- the ability to successfully acquire low cost deposits or funding;
- the ability to successfully execute strategies to increase noninterest income;
- the ability to successfully grow non-commercial real estate loans;
- the ability of the Company to continue to realize cost savings and revenue generation opportunities in connection with the synergies of centralizing operations;
- the ability to adopt and implement new regulatory requirements as dictated by the SEC, FASB or other rule-making bodies which govern our industry;
- changes in the general economic or industry conditions, nationally or in the communities in which the Company conducts business;
- the Company's ability to raise additional capital, if available, to sustain growth or operating results;
- the Company's ability to dispose of other real estate owned ("OREO") at reasonable values in a market that is very volatile.

50.

Centrue Financial Corporation

Item 3. Quantitative and Qualitative Disclosures About Market Risk
(Table Amounts In Thousands, Except Share Data)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Management

The Company performs a net interest income analysis as part of its asset/liability management practices. The net interest income analysis measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 50, 100, and 200 basis point increase in market interest rates or a 50 basis point decrease in market 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 the various rate shock levels at September 30, 2011 and December 31, 2010, respectively:

	Change in Net Interest Income Over One Year Horizon			
	September 30, 2011		December 31, 2010	
	Change \$	%	Change \$	%
+ 300 bp	\$ 2,025	7.11 %	\$ (570)	(1.82)%
+ 200 bp	1,193	4.19	(1,637)	(5.23)
+ 100 bp	363	1.27	(1,376)	(4.40)
+ 50 bp	196	0.69	(701)	(2.24)
Base	—	—	—	—
- 50bp	155	0.54	568	1.82

As shown above, the effect of an immediate 200 basis point increase in interest rates as of September 30, 2011 would increase the Company's net interest income by \$1.2 million or 4.2%. The effect of an immediate 50 basis point decrease in rates would increase the Company's net interest income by \$0.2 million or 0.5%.

During late 2008 and 2009, management instituted new underwriting standards that incorporated interest rate floors into the terms for many of its commercial loan relationships in order to better maintain the net interest margin during the time when market interest rates are at extremely low levels. While these floors have held income to a higher level in this low rate environment, they will also made it necessary for rates to climb to somewhat higher levels before the yield of the adjustable rate assets move above the floors and add significantly to interest income. During the current period management decided in order to help maintain rate competitiveness in our markets, these interest rates floors needed to be set lower. With this process underway, a much smaller rate increase enables the loan yields to move up from the rate floors and respond to rising market rates similar to the increase in deposit costs.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay 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.

51.

Centrue Financial Corporation
Item 4. Controls and Procedures

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings with the Securities and Exchange Commission. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives and, based on the evaluation described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at reaching that level of reasonable assurance.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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 effect on the Company's financial statements.

Item 1A. Risk Factors

The Company did not experience any material changes in the Risk Factors during the Company's most recently completed fiscal quarter. For specific information about the risks facing the Company refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

As previously disclosed, in the third quarter of 2009, the Company elected to defer regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its trust preferred securities and to suspend quarterly cash dividend payments on its Series A convertible preferred stock, Series B mandatory redeemable preferred stock and Series C fixed rate, cumulative perpetual preferred stock issued to the U.S. Treasury. Therefore, the Company is currently in arrears with the dividend payments on the preferred stock and interest payments on the subordinated debentures, as permitted by the related documentation. As of September 30, 2011, the amount of the arrearages on the various instruments was as follows: Junior subordinated debentures: \$2.4 million; Series A convertible preferred stock: \$0.5 million; Series B mandatory redeemable preferred stock: \$0.04 million; and Series C fixed rate, cumulative perpetual preferred stock: \$4.1 million.

Item 4. [Reserved]

Item 5. Other Information

None.

53.

Item 6. Exhibits

Exhibits:

- 10.1 Consulting agreement with Thomas A. Daiber (incorporated by reference from form 8-K filed on Sept. 26, 2011).
- 31.1 Certification of Kurt R. Stevenson, President and Principal Executive Officer, required by Rule 13a – 14(a).
- 31.2 Certification of Daniel R. Kadolph, Interim Principal Financial and Accounting Officer required by Rule 13a – 14(a).
- 32.1(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company’s President and Principal Executive Officer.
- 32.2(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company’s Interim Principal Financial and Accounting Officer.
- 101(2) Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Changes in Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements tagged as blocks of text.

-
- (1) This certification is not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.
 - (2) As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

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

CENTRUE FINANCIAL CORPORATION

Date: November 14, 2011

By: /s/ Kurt R. Stevenson
Kurt R. Stevenson
President and Principal Executive Officer

Date: November 14, 2011

By: /s/ Daniel R. Kadolph
Daniel R. Kadolph
Interim Principal Financial and Accounting
Officer

55.
