



Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

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.

Class	Shares outstanding at May 15, 2012
Common Stock, Par Value \$1.00	6,063,441

**Centrue Financial Corporation**

**Form 10-Q Index**

**March 31, 2012**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<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>	6
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	33
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	47
<b><u>Item 4. Controls and Procedures</u></b>	48
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	49
<b><u>Item 1A. Risk Factors</u></b>	49
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	49
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	49
<b><u>Item 4. [Reserved]</u></b>	49
<b><u>Item 5. Other Information</u></b>	49
<b><u>Item 6. Exhibits</u></b>	50
<b><u>SIGNATURES</u></b>	51

**Centrue Financial Corporation****Part I Financial Information****Item 1. Financial Statements****Unaudited Consolidated Balance Sheets****March 31, 2012 and December 31, 2011 (In Thousands, Except Share Data)**

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$62,544	\$69,735
Securities available-for-sale	246,361	228,836
Restricted securities	7,467	9,150
Loans	563,732	582,395
Allowance for loan losses	(20,338 )	(21,232 )
Net loans	543,394	561,163
Bank-owned life insurance	31,655	31,412
Mortgage servicing rights	2,031	2,089
Premises and equipment, net	23,370	23,754
Other intangible assets, net	5,027	5,264
Other real estate owned	33,501	29,667
Other assets	6,453	6,914
<b>Total assets</b>	<b>\$961,803</b>	<b>\$967,984</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest-bearing	\$132,163	\$134,137
Interest-bearing	711,242	714,501
<b>Total deposits</b>	<b>843,405</b>	<b>848,638</b>
Federal funds purchased and securities sold under agreements to repurchase	16,226	18,036
Federal Home Loan Bank advances	23,057	23,058
Notes payable	10,440	10,440
Series B mandatory redeemable preferred stock	268	268
Subordinated debentures	20,620	20,620
Other liabilities	15,029	14,355
<b>Total liabilities</b>	<b>929,045</b>	<b>935,415</b>
<b>Commitments and contingent liabilities</b>	<b>—</b>	<b>—</b>
<b>Stockholders' equity</b>		

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

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)	31,584	31,429
Common stock, \$1 par value, 15,000,000 shares authorized; 7,453,555 shares issued at March 31, 2012 and December 31, 2011	7,454	7,454
Surplus	74,561	74,558
Accumulated deficit	(61,236 )	(60,064 )
Accumulated other comprehensive income	1,772	569
	54,635	54,446
Treasury stock, at cost, 1,390,114 shares at March 31, 2012 and December 31, 2011	(21,877 )	(21,877 )
Total stockholders' equity	32,758	32,569
Total liabilities and stockholders' equity	\$961,803	\$967,984

See Accompanying Notes to Unaudited Financial Statements

1.

**Centrue Financial Corporation**

Unaudited Consolidated Statements Of Income (Loss)

And Comprehensive Income (Loss)

**Three Months Ended March 31, 2012 and 2011****(In Thousands, Except Per Share Data)**

	Three Months Ended March 31,	
	2012	2011
Interest income		
Loans	\$7,037	\$9,281
Securities		
Taxable	830	997
Exempt from federal income taxes	126	215
Federal funds sold and other	39	31
Total interest income	8,032	10,524
Interest expense		
Deposits	1,399	2,487
Federal funds purchased and securities sold under agreements to repurchase	11	11
Federal Home Loan Bank advances	186	412
Series B mandatory redeemable preferred stock	4	4
Subordinated debentures	293	270
Notes payable	96	90
Total interest expense	1,989	3,274
Net interest income	6,043	7,250
Provision for loan losses	1,350	4,250
Net interest income after provision for loan losses	4,693	3,000
Noninterest income		
Service charges	1,049	1,062
Mortgage banking income	487	407
Electronic banking services	532	527
Bank-owned life insurance	243	249
Securities gains	16	—
Total other-than-temporary impairment losses	—	(393 )
Portion of loss recognized in other comprehensive income (before taxes)	—	1
Net impairment on securities	—	(392 )
Gain on sale of OREO	191	44

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Gain on sale of other assets	—	63
Other income	534	164
	3,052	2,124

See Accompanying Notes to Unaudited Financial Statements

2.

**Centrue Financial Corporation**

Unaudited Consolidated Statements Of Income (Loss)

And Comprehensive Income (Loss)

**Three Months Ended March 31, 2012 and 2011****(In Thousands, Except Per Share Data)**

	Three Months Ended March 31,	
	2012	2011
Noninterest expense		
Salaries and employee benefits	3,702	3,633
Occupancy, net	664	720
Furniture and equipment	384	439
Marketing	75	60
Supplies and printing	68	64
Telephone	175	204
Data processing	307	364
FDIC insurance	518	850
Loan processing and collection costs	536	591
OREO valuation adjustment	133	200
Amortization of intangible assets	237	276
Other expenses	1,446	1,399
	8,245	8,800
Income (loss) before income taxes	\$(500 )	\$(3,676)
Income tax expense (benefit)	—	(218 )
Net income (loss)	\$(500 )	\$(3,458)
Preferred stock dividends	517	494
Net income (loss) for common stockholders	\$(1,017)	\$(3,952)
Basic earnings (loss) per common share	\$(0.17 )	\$(0.65 )
Diluted earnings (loss) per common share	\$(0.17 )	\$(0.65 )
Total comprehensive income (loss):		
Net income (loss)	\$(500 )	\$(3,458)
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, net of reclassifications and tax effect	—	(123 )
Change in unrealized gains (losses) on other securities available for sale, net of reclassifications and tax effect	1,219	984



Reclassification adjustment:		
Net impairment loss recognized in earnings	—	392
(Gains) recognized in earnings	(16 )	—
Net unrealized gains (loss)	1,203	1,253
Tax expense (benefit)	—	485
Other comprehensive income (loss)	1,203	768
Total comprehensive income (loss)	\$703	\$(2,690)

See Accompanying Notes to Unaudited Financial Statements

3.

**Centrue Financial Corporation**

## Unaudited Consolidated Statements Of Cash Flows

**Three Months Ended March 31, 2012 and 2011 (In Thousands)**

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities		
Net income (loss)	\$(500 )	\$(3,458 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	430	479
Amortization of intangible assets	237	276
Amortization of mortgage servicing rights, net	153	107
Amortization of bond premiums, net	727	642
Income tax valuation adjustment	94	1,141
Share based compensation	3	29
Provision for loan losses	1,350	4,250
Provision for deferred income taxes	(94 )	(1,141 )
Earnings on bank-owned life insurance	(243 )	(249 )
Other than temporary impairment, securities	—	392
OREO valuation allowance	133	200
Securities sale (gains), net	(16 )	—
(Gain) on sale of other assets, net	—	(63 )
(Gain) on sale of OREO	(191 )	(44 )
(Gain) on sale of loans	(417 )	(266 )
Proceeds from sales of loans held for sale	17,381	12,172
Origination of loans held for sale	(16,368)	(11,931)
Change in assets and liabilities		
(Increase) decrease in other assets	327	1,395
Increase (decrease) in other liabilities	155	(294 )
Net cash provided by operating activities	3,161	3,637
Cash flows from investing activities		
Proceeds from paydowns of securities available for sale	12,868	12,538
Proceeds from calls and maturities of securities available for sale	1,270	4,660
Proceeds from sales of securities available for sale	942	—
Purchases of securities available for sale	(32,095)	(32,240)
Redemption of Federal Home Loan Bank stock	1,593	—
Redemption of Federal Reserve Bank stock	110	322
Purchase of Federal Reserve Bank stock	(20 )	—
Net decrease (increase) in loans	10,409	209
(Purchase) disposal of premises and equipment	(46 )	(59 )
Proceeds from sale of OREO	1,661	1,312
Net cash from investing activities	(3,308 )	(13,258)

See Accompanying Notes to Unaudited Financial Statements

4.

**Centrue Financial Corporation**

## Unaudited Consolidated Statements Of Cash Flows

**Three Months Ended March 31, 2012 and 2011 (In Thousands)**

	Three Months Ended March 31,	
	2012	2011
Cash flows from financing activities		
Net increase (decrease) in deposits	(5,233 )	(8,622 )
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(1,810 )	(257 )
Repayment of advances from the Federal Home Loan Bank	(1 )	(20,000)
Net cash used in financing activities	(7,044 )	(28,879)
Net increase (decrease) in cash and cash equivalents	(7,191 )	(38,500)
Cash and cash equivalents		
Beginning of period	69,735	82,945
End of period	\$62,544	\$44,445
Supplemental disclosures of cash flow information		
Cash payments for		
Interest	\$1,896	\$3,254
Income taxes	10	—
Transfers from loans to other real estate owned	5,414	4,486

See Accompanying Notes to Unaudited Financial Statements

5.

## **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, 2011. The consolidated financial statements include the accounts of the Company and Centrue Bank. Intercompany balances and transactions have been eliminated in consolidation and certain 2011 amounts have been reclassified to conform to the 2012 presentation. The annualized results of operations during the three months ended March 31, 2012 are not necessarily indicative of the results expected for the year ending December 31, 2012. 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 months ended March 31, 2012 and 2011 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:

6.

**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 March 31, 2012      2011	
Basic Earnings (Loss) Per Common Share		
Net income (loss) for common stockholders	\$(1,017)	\$(3,952)
Weighted average common shares outstanding	6,063	6,048
Basic earnings (loss) per common share	\$(0.17 )	\$(0.65 )
Diluted Earnings (Loss) Per Common Share		
Weighted average common shares outstanding	6,063	6,048
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	6,063	6,048
Diluted earnings (loss) per common share	\$(0.17 )	\$(0.65 )

There were 280,927 options and 508,320 warrants outstanding for the three months ended March 31, 2012 and 496,738 options and 508,320 warrants outstanding for the three months ended March 31, 2011 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 \$246.4 million at March 31, 2012 compared to \$228.8 million at December 31, 2011. The carrying value of securities classified as restricted (Federal

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Reserve and Federal Home Loan Bank stock) was \$7.5 million at March 31, 2012 compared to \$9.2 million at December 31, 2011. 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 March 31, 2012 and December 31, 2011:

	March 31, 2012			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	\$15,505	\$72	\$(84)	) \$15,517
States and political subdivisions	17,924	656	—	) 17,268
U.S. government agency residential mortgage-backed securities	170,641	3,394	(61)	) 167,308
Collateralized residential mortgage obligations:				
Agency	27,161	221	(55)	) 26,995
Private label	1,433	124	(10)	) 1,319
Equity securities	2,583	171	—	) 2,412
Collateralized debt obligations:				
Single issue	2,064	—	—	) 2,064
Pooled	7,084	627	(1,604)	) 8,061
Corporate	1,966	—	(34)	) 2,000
	\$246,361	\$5,265	\$(1,848)	) \$242,944

7.



**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 3. Securities (Continued)**

	December 31, 2011			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	\$3,019	\$88	\$—	\$2,931
States and political subdivisions	18,125	649	(1 )	17,477
U.S. government agency residential mortgage-backed securities	177,539	2,790	(101 )	174,850
Collateralized residential mortgage obligations:				
Agency	15,527	229	—	15,298
Private label	1,550	72	(7 )	1,485
Equity securities	2,530	134	—	2,396
Collateralized debt obligations:				
Single issue	2,064	—	—	2,064
Pooled	6,600	53	(1,574 )	8,121
Corporate	1,882	—	(118 )	2,000
	\$228,836	\$4,015	\$(1,801 )	\$226,622

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

	Three Months Ended	
	March 31, 2012	March 31, 2011
Proceeds from calls and maturities	\$1,270	\$4,660
Proceeds from sales	942	—
Realized gains	16	—
Realized losses	—	—
Net impairment loss recognized in earnings	—	(392 )
Tax benefit (provision) related to net realized gains and losses	(6 )	151

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

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:

	March 31, 2012								
	Less than 12 Months			12 Months or More		Total			
	Fair Value	Unrealized Loss		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
U.S. government agencies	12,761	(84	)	—	—	12,761	(84	)	
U.S. government agency residential mortgage-backed securities	14,260	(61	)	—	—	14,260	(61	)	
Collateralized residential mortgage obligations:									
Agency	12,965	(55	)	—	—	12,965	(55	)	
Private label	608	(10	)	—	—	608	(10	)	
Collateralized debt obligations: pooled	—	—		3,593	(1,604	)	3,593	(1,604	)
Corporate	1,966	(34	)	—	—	1,966	(34	)	
Total temporarily impaired	\$42,560	\$(244	)	\$3,593	\$(1,604	)	\$46,153	\$(1,848	)

8.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 3. Securities (Continued)**

	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	\$524	\$(1 )	\$—	\$—	\$524	\$(1 )
U.S. government agency residential mortgage-backed securities	30,895	(101 )	—	—	30,895	(101 )
Collateralized residential mortgage obligations: private label	731	(7 )	—	—	731	(7 )
Collateralized debt obligations: pooled	—	—	6,497	(1,574 )	6,497	(1,574 )
Corporate	1,882	(118 )	—	—	1,882	(118 )
Total temporarily impaired	\$34,032	\$(227 )	\$6,497	\$(1,574 )	\$40,529	\$(1,801 )

The fair values of securities classified as available-for-sale at March 31, 2012, 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	\$3,044	\$3,060
Due after one year through five years	24,743	24,974
Due after five years through ten years	6,370	6,711
Due after ten years	10,753	9,798
U.S. government agency residential mortgage-backed securities	167,308	170,641
Collateralized residential mortgage obligations	28,314	28,594
Equity securities	2,412	2,583
	\$242,944	\$246,361

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

The following table presents a rollforward of the credit losses recognized in earnings for the three month period ended March 31, 2012 and 2011:

	2012	2011
Beginning balance, January 1,	\$20,597	\$20,362
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	—	392
Ending balance, March 31,	\$20,597	\$20,754

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.

9.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 4. Loans**

The major classifications of loans follow:

	Aggregate Principal Amount	
	March 31, 2012	December 31, 2011
Commercial	\$61,872	\$63,982
Agricultural & AGRE	33,800	39,128
Construction, land & development	37,082	42,008
Commercial RE	290,284	288,068
1-4 family mortgages	138,394	146,767
Consumer	2,300	2,442
Total loans	\$563,732	\$582,395
Allowance for loan losses	(20,338 )	(21,232 )
Loans, net	\$543,394	\$561,163

There were \$1.2 million and \$1.8 million of loans held for sale at March 31, 2012 and December 31, 2011, 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.

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

Mar. 31, 2012	Commercial				Commercial Real Estate		
Internal Risk Rating	Closed end	Lines of Credit	Agriculture & AG RE	Construction Land & Development	Owner-Occupied	Non-Owner Occupied	Total
1-2	\$800	\$660	\$ 3,922	\$ 3,569	\$8,587	\$ 640	\$18,178
3	2,730	6,442	12,838	1,023	8,780	15,515	47,328
4	11,847	14,543	13,577	1,442	68,768	48,748	158,925
5	10,082	5,039	2,597	4,878	20,963	49,995	93,554
6	2,898	3,931	741	6,027	13,057	19,107	45,761
7	1,681	1,219	125	20,143	15,553	20,571	59,292
8	—	—	—	—	—	—	—
Total	\$30,038	\$31,834	\$ 33,800	\$ 37,082	\$135,708	\$ 154,576	\$423,038

10.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 4. Loans (Continued)**

Dec. 31, 2011	Commercial				Commercial Real Estate		Total
	Closed end	Lines of Credit	Agriculture & AG RE	Construction Land & Development	Owner-Occupied	Non-Owner Occupied	
Internal Risk Rating							
1-2	\$716	\$449	\$ 4,833	\$ 3,649	\$3,489	\$ 647	\$13,783
3	2,938	7,708	15,649	1,034	8,971	17,168	53,468
4	12,989	13,533	14,323	1,566	68,045	44,665	155,121
5	10,405	5,322	3,517	6,200	20,518	51,580	97,542
6	3,374	3,892	741	5,497	10,868	19,900	44,272
7	1,434	1,222	65	24,062	19,720	22,497	69,000
8	—	—	—	—	—	—	—
Total	\$31,856	\$32,126	\$ 39,128	\$ 42,008	\$131,611	\$ 156,457	\$433,186

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:

Mar. 31, 2012	Residential – 1-4 family		
	Senior Lien	JR Lien & Lines of Credit	Total
Unrated	\$78,795	\$47,103	\$125,898
Special mention	1,604	830	2,434
Substandard	8,854	893	9,747
Doubtful	315	—	315
Total	\$89,568	\$48,826	\$138,394

Residential – 1-4 family  
Total

	Senior Lien	JR Lien & Lines of Credit	
Dec. 31, 2011			
Unrated	\$83,969	\$49,498	\$133,467
Special mention	907	904	1,811
Substandard	10,013	1,161	11,174
Doubtful	315	—	315
Total	\$95,204	\$51,563	\$146,767

An analysis of the activity in the allowance for loan losses for the three months ended March 31, 2012 and 2011 follows:

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2012							
Beginning Balance	\$ 1,590	\$ 5	\$ 4,811	\$ 11,680	\$ 3,090	\$ 56	\$21,232
Charge-offs	—	(25 )	(52 )	(2,150 )	(403 )	(5 )	(2,635 )
Recoveries	—	17	284	87	3	—	391
Provision	(87 )	11	(388 )	1,582	239	(7 )	1,350
Ending Balance	\$ 1,503	\$ 8	\$ 4,655	\$ 11,199	\$ 2,929	\$ 44	\$20,338

11.



**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 4. Loans (Continued)**

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2011							
Beginning Balance	\$ 1,634	\$ 337	\$ 12,500	\$ 13,721	\$ 3,273	\$ 46	\$31,511
Charge-offs	(65 )	—	(4,501 )	(1,718 )	(626 )	(20 )	(6,930 )
Recoveries	6	1	1	217	28	5	258
Provision	184	(23 )	655	3,049	380	5	4,250
Ending Balance	\$ 1,759	\$ 315	\$ 8,655	\$ 15,269	\$ 3,055	\$ 36	\$29,089

The following is an analysis on the balance in the allowance for loan losses and the recorded investment in impaired loans by portfolio segment based on impairment method as of March 31, 2012 and December 31, 2011:

Mar. 31, 2012	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
Allowance for loan losses:							
Loans individually evaluated for impairment	\$ 674	\$ 8	\$ 3,172	\$ 6,044	\$ 1,686	\$ —	\$11,584
Loans collectively evaluated for impairment	829	—	1,483	5,155	1,243	44	8,754
Total ending allowance balance	\$ 1,503	\$ 8	\$ 4,655	\$ 11,199	\$ 2,929	\$ 44	\$20,338
Loan balances:							
Loans individually evaluated for impairment	\$ 2,712	\$ 125	\$ 20,143	\$ 32,742	\$ 9,948	\$ 1	\$65,671
Loans collectively evaluated for impairment	59,160	33,675	16,939	257,542	128,446	2,299	498,061
Loans with an allowance recorded:	\$ 61,872	\$ 33,800	\$ 37,082	\$ 290,284	\$ 138,394	\$ 2,300	\$563,732
Dec. 31, 2011	Commercial					Consumer	Total

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

		Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential		
Allowance for loan losses:							
Loans individually evaluated for impairment	\$ 715	\$ —	\$ 2,228	\$ 5,211	\$ 1,591	\$ 5	\$9,750
Loans collectively evaluated for impairment	875	5	2,583	6,469	1,499	51	11,482
Total ending allowance balance	\$ 1,590	\$ 5	\$ 4,811	\$ 11,680	\$ 3,090	\$ 56	\$21,232
Loan balances:							
Loans individually evaluated for impairment	\$ 2,463	\$ 65	\$ 24,062	\$ 36,141	\$ 10,563	\$ 5	\$73,299
Loans collectively evaluated for impairment	61,519	39,063	17,946	251,927	136,204	2,437	509,096
Loans with an allowance recorded:	\$ 63,982	\$ 39,128	\$ 42,008	\$ 288,068	\$ 146,767	\$ 2,442	\$582,395

12.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 4. Loans (Continued)****Troubled Debt Restructurings:**

The Company had troubled debt restructurings (“TDRs”) of \$6.4 million and \$7.1 million as of March 31, 2012 and December 31, 2011, respectively. Specific reserves of \$1.3 million and \$0.95 million were allocated to TDRs as of March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, nonaccrual TDR loans were \$5.3 million, as compared to \$6.0 million at December 31, 2011. March 31, 2012 and December 31, 2011, \$1.1 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 March 31, 2012.

During the period ending March 31, 2012, 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.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending March 31, 2012:

For the Three Months Ended March 31, 2012

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Provision
Commercial				
Closed End	—	\$ —	\$ —	\$ —
Line of Credit	—	—	—	—
Agricultural & AGRE	—	—	—	—
Construction, land & development	—	—	—	—

CRE – all other				
Owner Occupied	—	—	—	—
Non-Owner Occupied	1	892	892	585
1-4 family residential				
Senior lien	—	—	—	—
Junior lien & lines or credit	—	—	—	—
Consumer	—	—	—	—
Total	1	\$ 892	\$ 892	\$ 585

The troubled debt restructurings described above increased the allowance for loan losses by \$0.6 million and resulted in no charge offs during the three month period ending March 31, 2012.

13.

**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 month period ending March 31, 2011:

	For the Three Months Ended March 31, 2011			
	Pre- Number of Loans	Pre- Modification Recorded Investment	Post- Modification Recorded Investment	Provision
Commercial				
Closed End	—	\$ —	\$ —	\$ —
Line of Credit	—	—	—	—
Agricultural & AGRE	—	—	—	—
Construction, land & development	1	45	45	—
CRE – all other				
Owner Occupied	—	—	—	—
Non-Owner Occupied	—	—	—	—
1-4 family residential				
Senior lien	—	—	—	—
Junior lien & lines or credit	—	—	—	—
Consumer	—	—	—	—
Total	1	\$ 45	\$ 45	\$ —

The troubled debt restructurings described did not increase the allowance for loan losses and resulted in no charge offs during the three month period ending March 31, 2011.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three month period ending March 31, 2012.

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.

14.

**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:

March 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Loans with no related allowance recorded:						
Commercial						
Closed End	\$ 9	\$ 23	\$ —	\$ 32	\$ —	\$ —
Line of Credit	—	—	—	369	—	—
Agricultural & AGRE	65	682	—	65	—	—
Construction, land & development	3,374	7,245	—	6,861	(8)	(8)
CRE – all other						
Owner Occupied	4,611	5,290	—	5,437	(2)	(2)
Non-Owner Occupied	4,880	4,880	—	10,266	77	50
1-4 family residential						
Senior lien	1,487	1,776	—	1,824	5	3
Junior lien & lines or credit	267	372	—	642	2	2
Consumer	—	—	—	—	—	—
Subtotal	14,693	20,268	—	25,496	74	45
Loans with an allowance recorded:						
Commercial						
Closed End	\$ 1,484	\$ 1,575	\$ 673	\$ 1,630	\$ 17	\$ 12
Line of Credit	1,219	1,482	1	1,727	—	(10)
Agricultural & AGRE	60	60	8	20	1	—
CRE - Construction, land & development	16,769	27,637	3,172	18,933	6	4
CRE – all other						
Owner Occupied	10,813	11,166	2,331	13,319	145	89
Non-owner occupied	12,438	14,378	3,713	11,232	69	40
1-4 family residential						
Senior lien	7,670	8,138	1,378	7,693	112	95
Junior lien & lines of credit	524	671	308	468	3	3

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Consumer	1	1	—	4	—	—
Subtotal	50,978	65,108	11,584	55,026	353	233
Total	\$ 65,671	\$ 85,376	\$ 11,584	\$ 80,522	\$ 427	\$ 278
Commercial	\$ 55,723	\$ 74,418	\$ 9,898	\$ 69,891	\$ 305	\$ 175
Residential	\$ 9,947	\$ 10,957	\$ 1,686	\$ 10,627	\$ 122	\$ 103
Consumer	\$ 1	\$ 1	\$ —	\$ 4	\$ —	\$ —

15.



**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 4. Loans (Continued)**

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Loans with no related allowance recorded:						
Commercial						
Closed End	\$ 28	\$ 28	\$ —	\$ 53	\$ 1	\$ 1
Line of Credit	45	308	—	550	—	—
Agricultural & AGRE	65	682	—	62	3	3
Construction, land & development	4,453	14,583	—	10,066	58	58
CRE – all other						
Owner Occupied	4,738	5,417	—	6,284	44	41
Non-Owner Occupied	7,749	8,656	—	11,933	442	416
1-4 family residential						
Senior lien	1,108	1,576	—	2,198	37	37
Junior lien & lines or credit	683	799	—	697	17	16
Consumer	—	—	—	—	—	—
Subtotal	18,869	32,049	—	31,843	602	572
Loans with an allowance recorded:						
Commercial						
Closed End	\$ 1,213	\$ 1,213	\$ 449	\$ 1,380	\$ 84	\$ 84
Line of Credit	1,177	1,177	266	2,337	25	14
Agricultural & AGRE	—	—	—	1,039	—	—
CRE - Construction, land & development	19,609	30,053	2,228	19,749	(26 )	(27 )
CRE – all other						
Owner Occupied	14,851	15,204	3,678	13,152	850	773
Non-owner occupied	8,803	11,142	1,533	11,632	383	353
1-4 family residential						
Senior lien	8,396	8,580	1,391	8,062	693	677
Junior lien & lines of credit	375	482	200	386	9	9
Consumer	6	6	5	4	—	—
Subtotal	54,430	67,857	9,750	57,741	2,018	1,883
Total	\$ 73,299	\$ 99,906	\$ 9,750	\$ 89,584	\$ 2,620	\$ 2,455

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Commercial	\$ 62,731	\$ 88,462	\$ 8,154	\$ 78,237	\$ 1,864	\$ 1,716
Residential	\$ 10,562	\$ 11,438	\$ 1,591	\$ 11,343	\$ 756	\$ 739
Consumer	\$ 6	\$ 6	\$ 5	\$ 4	\$ —	\$ —

Due to the economic conditions facing many of its customers, the Company determined that there were \$22.8 million and \$28.6 million of loans that were classified as impaired but were considered to be performing loans at March 31, 2012 and December 31, 2011, 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:

March 31, 2012	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	\$ 171	\$ 43	\$ 484	\$ 698	\$ 29,340	\$ 30,038	\$ —
Line of credit	65	—	1,219	1,284	30,550	31,834	—
Agricultural & AGRE	100	—	65	165	33,635	33,800	—
CRE – construction, land & develop	24	—	19,693	19,717	17,365	37,082	—
CRE – all other							
Owner occupied	1,236	207	6,922	8,365	127,343	135,708	—
Non-owner occupied	280	—	9,925	10,205	144,371	154,576	—
Residential – 1-4 family							
Senior lien	2,559	—	3,961	6,520	83,048	89,568	—
Junior lien & lines of credit	601	72	578	1,251	47,575	48,826	—
Consumer	4	—	—	4	2,296	2,300	—
Total	\$ 5,040	\$ 322	\$ 42,847	\$ 48,209	\$ 515,523	\$ 563,732	\$ —

December 31, 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	\$ 1,183	\$ —	\$ 95	\$ 1,278	\$ 30,578	\$ 31,856	\$ —
Line of credit	—	43	1,222	1,265	30,861	32,126	—
Agricultural & AGRE	—	—	65	65	39,063	39,128	—
CRE – construction, land & develop	—	472	23,738	24,210	17,798	42,008	—
CRE – all other							
Owner occupied	2,477	1,357	8,633	12,467	119,144	131,611	—
Non-owner occupied	3,207	3,000	6,572	12,779	143,678	156,457	—

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Residential – 1-4 family							
Senior lien	2,832	691	3,588	7,111	88,093	95,204	—
Junior lien & lines of credit	738	151	806	1,695	49,868	51,563	—
Consumer	10	—	4	14	2,428	2,442	—
Total	\$10,447	\$5,714	\$ 44,723	\$60,884	\$521,511	\$582,395	\$ —

The following table represents data for nonperforming loans:

	For the period	
	ended	
	March	December
	31,	31,
	2012	2011
Commercial		
Closed end	\$484	\$ 95
Line of credit	1,219	1,222
Agricultural & AGRE	65	65
CRE – construction, land & development	19,693	23,738
CRE – all other		
Owner occupied	6,922	8,633
Non-owner occupied	9,925	6,572
Residential – 1-4 family		
Senior lien	3,961	3,588
Junior lien & lines of credit	578	806
Consumer	—	4
Total	\$42,847	\$ 44,723

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

17.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)**

## 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 March 31, 2012, and changes during the period ended on those dates is presented below:

	March 31, 2012		Weighted-	Aggregate
	Shares	Weighted- Average Exercise Price	Average Remaining Contractual Life	Intrinsic Value
Outstanding at January 1, 2012	328,438	\$ 16.17		
Granted	—	—		
Exercised	—	—		
Forfeited	(47,511 )	16.25		
Outstanding at end of period	280,927	\$ 16.15	3.0 years	\$ —
Vested or expected to vest	279,730	\$ 16.17	3.0 years	\$ —
Options exercisable at period end	254,327	\$ 16.55	2.9 years	\$ —

Options outstanding at March 31, 2012 and December 31, 2011 were as follows:

Outstanding	Exercisable
-------------	-------------

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Range of Exercise Prices	Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
March 31, 2012:				
\$ 5.24 - \$ 13.00	73,500	3.9 years	56,100	\$ 7.18
13.88 - 18.63	92,327	2.3 years	85,127	17.25
19.03 - 23.31	115,100	2.9 years	113,100	20.67
	280,927	3.0 years	254,327	\$ 16.55

December 31, 2011:

\$ 5.24 - \$ 13.00	75,500	4.2 years	49,400	\$ 6.89
13.88 - 18.63	124,838	2.0 years	110,438	16.43
19.03 - 23.31	128,100	3.0 years	124,500	20.77
	328,438	2.9 years	284,338	\$ 16.67

There were no options exercised for the periods ended March 31, 2012 and 2011. The compensation cost that has been charged against income for the stock options portion of the Option Plans was \$0.003 million and \$0.03 million for the three months ended March 31, 2012 and 2011, respectively.

There were no stock options granted during the 2012 and 2011 periods.

18.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 5. Share Based Compensation (Continued)**

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2012 and beyond is estimated as follows:

	Amount
April, 2012 – December, 2012	\$ 30
2013	18
2014	—
 Total	 \$ 48

**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 of our financial statements from the December 31, 2011 10-K.

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.

19.



**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 7. Segment Information (Continued)**

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 March 31, 2012				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$ 1,878	\$ 4,778	\$(490 )	\$ (123 )	\$ 6,043
Other revenue	1,988	699	16	349	3,052
Other expense	2,519	1,091	45	3,923	7,578
Noncash items					
Depreciation	237	—	—	193	430
Provision for loan losses	232	1,118	—	—	1,350
Other intangibles	237	—	—	—	237
Net allocations	1,184	2,425	281	(3,890 )	—
Income tax benefit	—	—	—	—	—
Segment profit (loss)	\$(543 )	\$ 843	\$(800 )	\$ —	\$(500 )
Segment assets	\$ 160,298	\$ 461,328	\$ 263,016	\$ 77,161	\$ 961,803

	Three Months Ended March 31, 2011				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	\$ 2,043	\$ 5,980	\$(631 )	\$ (142 )	\$ 7,250
Other revenue	1,906	318	(392 )	292	2,124
Other expense	2,723	828	44	4,450	8,045
Noncash items					
Depreciation	275	1	—	203	479
Provision for loan losses	385	3,865	—	—	4,250
Other intangibles	276	—	—	—	276
Net allocations	1,435	2,719	349	(4,503 )	—

Income tax expense (benefit)	(12 )	(148 )	(58 )	—	(218 )
Segment profit (loss)	\$(1,133 )	\$(967 )	\$(1,358 )	\$ —	\$(3,458 )
Segment assets	\$185,218	\$574,688	\$241,950	\$71,980	\$1,073,836

### Note 8. Borrowed Funds and Debt Obligations

As of March 31, 2012, 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 60% as of March 31, 2012 due to a sub-debt phase-out provision and will be further reduced by 20% in each of the next two years. The outstanding balance of the debt agreements was \$10.3 million as of March 31, 2012 and December 31, 2011. The Company requires regulatory approval in order to make the quarterly interest payments under our debt agreements as described in Note 13.

## **Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)**

### **Note 8. Borrowed Funds and Debt Obligations (Continued)**

On March 7, 2011, the Company entered into an amendment with the lender, which modified the covenant relating to capitalization at the Company and Bank level so that the Company returned to full compliance with the terms of its credit agreement as of December 31, 2010. 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 loan loss reserves to total loans of 3.00%. As of December 31, 2011, the Company was in compliance with all covenants, with the exception of the tier 1 leverage ratio, and all payments remain current. A covenant waiver was received from the lender as of December 31, 2011; the loan covenants were revised effective quarter-end March 31, 2012 and each quarter thereafter to maintain the adequately capitalized levels for the Bank and remove the holding company capital requirements. As of March 31, 2012, the Company and Bank are in compliance with the covenants of the amended agreement.

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 March 31, 2012 and December 31, 2011 was \$0.2 million.

### **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. The fair values of Level 3 investment securities are determined by the Finance group who provide default and scenario assumptions to the Company's Chief Investment Officer (CIO) who performs the modeling for the analysis and submits for review by the Chief Financial Officer (CFO). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Ratings agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

## Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

### Note 9. Fair Value (Continued)

*Pooled Trust Preferred Collateralized Debt Obligations ("CDO")*. The assets included in Level 3 are CDOs. Over the past few years, the decline in the level of observable inputs and market activity for trust preferred CDOs by the measurement date was significant and resulted in unreliable external pricing. As such, 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.

The Company assumes no recoveries on defaults and treats 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" companies and "under-performing" companies. 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 were approximately 8% of the performing balance of the instrument across 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 applied 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 applied ranged from 200 basis points to 600 basis points based 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 March 31, 2012 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 March 31, 2012, 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 March 31, 2012, 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 first quarter of 2012, our model indicated no OTTI was needed for credit impairment. Management has determined that the remaining 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.

*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 first quarter of 2012, our model indicated no OTTI on these CMOs, with an aggregate cost basis of \$1.3 million.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 9. Fair Value (Continued)**

*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. As of March 31, 2012, the aggregate cost basis on these securities was \$2.1 million as there have been calls on these securities in previous quarters.

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
U.S. government agencies	\$ 15,505	\$ —	\$ 15,505	\$ —

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

State and political subdivisions	17,924	—	17,924	—
U.S. government agency residential mortgage-backed securities	170,641	—	170,641	—
Collateralized mortgage obligations:				
Agency	27,161	—	27,161	—
Private Label	1,433	—	—	1,433
Equities	2,583	—	2,583	—
Collateralized debt obligations:				
Single Issue	2,064	—	2,064	—
Pooled	7,084	—	—	7,084
Corporate	1,966	—	1,966	—
Available-for-sale securities	\$246,361	\$ —	\$ 237,844	\$ 8,517

	Carrying	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011	Amount			
U.S. government agencies	\$3,019	\$ —	\$ 3,019	\$ —
State and political subdivisions	18,125	—	18,125	—
U.S. government agency residential mortgage-backed securities	177,539	—	177,539	—
Collateralized mortgage obligations:				
Agency	15,527	—	15,527	—
Private Label	1,550	—	—	1,550
Equities	2,530	—	2,530	—
Collateralized debt obligations:				
Single Issue	2,064	—	2,064	—
Pooled	6,600	—	—	6,600
Corporate	1,882	—	1,882	—
Available-for-sale securities	\$228,836	\$ —	\$ 220,686	\$ 8,150

There were no transfers between Level 1 and Level 2 during the first quarter of 2012 or all of 2011.

23.



**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 9. Fair Value (Continued)**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			
	2012		2011	
	CDOs	CMOs	CDOs	CMOs
Beginning balance, January 1	\$6,600	\$1,550	\$4,422	\$4,936
Transfers into Level 3	—	—	—	—
Total gains or losses (realized/unrealized) included in earnings	—	—	(392 )	—
Security impairment	—	—	—	—
Payment received	(60 )	(166 )	—	(1,088)
Other changes in fair value	—	1	20	—
Included in other comprehensive income	544	48	864	30
Ending Balance, March 31	\$7,084	\$1,433	\$4,914	\$3,878

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2012.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateralized mortgage obligations	\$ 1,433	Collateral coverage	Probability of loss Coverage ratio	0% - 40% (22%) 5% - 5% (5%)
Collateralized debt obligations	\$ 7,084	Discounted cash flow	Collateral default rate	4% - 30% (8%)

Discount rate 3% - 5% (3%)

Assets Measured at Fair Value on a Non-Recurring Basis

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

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
Impaired loans				
Commercial				
Closed end	\$811	\$ —	\$ —	\$ 811
Line of credit	1,218	—	—	1,218
Agricultural & AGRE	52	—	—	52
CRE - construction, land & development	13,597	—	—	13,597
CRE – all other				
Owner occupied	8,482	—	—	8,482
Non-owner occupied	8,725	—	—	8,725
1-4 family residential				
Senior lien	6,292	—	—	6,292
Junior lien & lines of credit	216	—	—	216
Consumer	1	—	—	1

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)
OREO property				
Commercial				
Closed end	\$ —	\$ —	\$ —	\$ —
Line of credit	—	—	—	—
Agricultural & AGRE	1,423	—	—	1,423
CRE - construction, land & development	3,857	—	—	3,857
CRE – all other				
Owner occupied	3,390	—	—	3,390
Non-owner occupied	973	—	—	973
1-4 family residential				
Senior lien	401	—	—	401
Junior lien & lines of credit	—	—	—	—
Consumer	—	—	—	—

	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, 2011				
Impaired loans				
Commercial				
Closed end	\$ 764	\$ —	\$ —	\$ 764
Line of credit	911	—	—	911

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Agricultural & AGRE	—	—	—	—
CRE - construction, land & development	17,381	—	—	17,381
CRE – all other				
Owner occupied	11,173	—	—	11,173
Non-owner occupied	7,270	—	—	7,270
1-4 family residential				
Senior lien	7,005	—	—	7,005
Junior lien & lines of credit	175	—	—	175
Consumer	1	—	—	1
OREO property				
Commercial				
Closed end	\$—	\$	—	\$ —
Line of credit	—	—	—	—
Agricultural & AGRE	261	—	—	261
CRE - construction, land & development	3,312	—	—	3,312
CRE – all other				
Owner occupied	4,082	—	—	4,082
Non-owner occupied	829	—	—	829
1-4 family residential				
Senior lien	285	—	—	285
Junior lien & lines of credit	81	—	—	81
Consumer	—	—	—	—

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

25.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)**

**Note 9. Fair Value (Continued)**

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

Impaired loans had a carrying amount of \$51.0 million with specific loan loss allocations of \$11.6 million in first quarter 2012, resulting in additional provision for loan losses of \$4.6 million for the period. At December 31, 2011, impaired loans had a carrying amount of \$54.4 million with a specific loan loss allocation of \$9.7 million resulting in an additional provision for loan losses of \$9.8 million for the year ended December 31, 2011. The majority of our impaired loans are collateralized by real estate.

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

OREO properties measured at fair value, less costs to sell, had a net carrying amount of \$10.0 million which is made up of the outstanding balance of \$17.6 million, net of a valuation allowance of \$7.6 million at March 31, 2012, resulting in a write-down of \$0.1 million for the first quarter of 2012. This compares to 2011 when OREO properties with a carrying value of \$16.6 million were written down to their fair value of \$8.8 million, which resulted in a charge to earnings of \$7.8 million during the year.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2012:

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans		Sales comparison approach	Adjustment for differences between comparable sales	
Commercial				
Closed End	\$ 811			20% - 100% (30%)
Line of Credit	1,218			20% - 100% (30%)
Agricultural & AGRE	52			20% - 55% (12%)
CRE - Construction, land & development	13,597			10% - 55% (14%)
CRE - all other				
Owner occupied	8,482			10% - 55% (18%)
Non-owner occupied	8,725			10% - 55% (18%)
1-4 family residential				
Senior lien	6,292			10% - 50% (16%)
Junior lien & lines of credit	216			20% - 100% (51%)
Consumer	1			0% - 60% (0%)

26.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 9. Fair Value (Continued)**

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
OREO property		Sales comparison approach	Adjustment for differences between comparable sales	
Commercial				
Closed End	\$ -			-
Line of Credit	-			-
Agricultural & AGRE	1,423			10% (10%)
CRE - Construction, land & development	3,857			5% - 50% (25%)
CRE - all other				
Owner occupied	3,390			15% - 40% (22%)
Non-owner occupied	973			10% - 40% (26%)
1-4 family residential				
Senior lien	401			0% - 55% (26%)
Junior lien & lines of credit	-			-
Consumer	-			-

**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.

	Carrying Value	Fair Value measurements at March 31, 2012 Using			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and Cash Equivalents	\$62,544	\$57,544	\$5,000	\$—	\$62,544
Securities	246,361	—	237,844	8,517	246,361
Restricted Securities	7,467	—	—	—	NA
Net Loans	543,394	—	—	526,095	526,095
Accrued interest receivables	2,903	—	952	1,951	2,903
Financial liabilities					
Deposits	\$843,405	\$—	\$847,096	\$—	\$847,096
Federal Funds purchased and securities sold under agreements to repurchase	16,226	—	16,226	—	16,226
Federal Home Loan Bank Advances	23,057	—	24,505	—	24,505
Notes payable	10,440	—	—	10,428	10,428
Subordinated debentures	20,620	—	—	18,364	18,364
Series B mandatorily redeemable preferred stock	268	—	268	—	268
Accrued interest payable	4,133	—	1,156	2,977	4,133

27.



**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 December 31, 2011 are as follows:

	December 31, 2011 Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 69,735	\$ 69,735
Securities	228,836	228,836
Restricted securities	9,150	N/A
Net loans	561,163	540,612
Accrued interest receivable	3,123	3,123
Financial liabilities		
Deposits	848,638	849,141
Federal funds purchased and securities sold under agreements to repurchase	18,036	18,036
Federal Home Loan Bank advances	23,058	24,604
Notes payable	10,440	9,321
Subordinated debentures	20,620	14,023
Series B mandatory redeemable preferred stock	268	268
Accrued interest payable	4,041	4,041

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.

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

***(a) Cash and Cash Equivalents***

The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2.

***(b) Loans***

Fair values of loans, excluding loans held for sale, are estimated as follows: Fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 2 classification. Impaired loans are valued at the lower of cost or fair value as described previously and carry a Level 3 classification. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

***(c) Deposits***

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

***(d) Short-term Borrowings***

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

28.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)**

**Note 9. Fair Value (Continued)**

***(e) Other Borrowings***

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

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

***(f) Accrued Interest Receivable/Payable***

The carrying amounts of accrued interest approximate fair value resulting in a Level 1, 2 or 3 classification depending on the level its associated asset/liability is classified at.

***(g) Off-balance Sheet Instruments***

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

**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.

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 March 31, 2012 one director has been appointed. The Company is accruing the dividends in accordance to GAAP and the terms of the program. At March 31, 2012 and December 31, 2011 the amounts accrued are \$5.0 million and \$4.6 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.

Both the preferred securities and the warrant are accounted for as components of regulatory Tier I capital. Per accounting guidelines, the Company is accreting the discount for this instrument.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 11. Intangible Assets**

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

	March 31, 2012		December 31, 2011	
	Gross		Gross	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	\$14,124	\$ 9,678	\$14,124	\$ 8,412
Missouri charter	581	—	581	—
Total	\$14,705	\$ 9,678	\$14,705	\$ 8,412

Aggregate amortization expense was \$0.2 million and \$0.3 million for the three months ended March 31, 2012 and 2011, respectively.

Estimated amortization expense for subsequent periods is as follows:

Remaining quarters in 2012	\$714
2013	951
2014	951
2015	951
2016	879
Thereafter	—

**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, 2011 and March 31, 2012. A three year cumulative loss position and continued near-term losses represent negative evidence that cannot be overcome with future taxable income.

30.

**Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)****Note 12. Income Taxes (Continued)**

Below is a summary of items included in the deferred tax inventory as of March 31, 2012 and December 31, 2011:

	Balance at 03/31/12	Balance at 12/31/11	Change	
Allowance for loan loss	\$7,892	\$8,239	\$	(347)
Impairment on securities portfolio	8,095	8,095	—	
Net operating loss carryforwards	20,111	19,388	723	
Valuation adjustments on OREO property	2,931	3,020	(89	)
Basis adjustments from merger	(1,405 )	(1,467 )	62	
Mortgage servicing rights	(788 )	(810 )	22	
Securities available-for-sale	(1,326 )	(859 )	(467	)
All other	(55 )	(57 )	2	
Net deferred tax before allowance	\$35,455	\$35,549	\$(94	)
Valuation allowance	(35,455 )	(35,549 )	94	
Net deferred tax assets	\$—	\$—	\$—	

**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 March 31, 2012						
Total capital (to risk-weighted assets)						
Centrue Financial	\$60,234	9.0 %	\$53,308	8.0 %	N/A	N/A
Centrue Bank	68,768	10.5	52,569	8.0	65,712	10.0



Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Tier I capital (to risk-weighted assets)							
Centrue Financial	\$36,085	5.4	26,654	4.0	N/A	N/A	
Centrue Bank	60,404	9.2	26,285	4.0	39,427	6.0	
Tier I leverage ratio (to average assets)							
Centrue Financial	\$36,085	3.8	38,181	4.0	N/A	N/A	
Centrue Bank	60,404	6.3	38,095	4.0	47,618	5.0	
As of December 31, 2011							
Total capital (to risk-weighted assets)							
Centrue Financial	\$61,151	9.0 %	\$54,184	8.0 %	N/A	N/A	
Centrue Bank	68,637	10.3	53,409	8.0	66,762	10.0	
Tier I capital (to risk-weighted assets)							
Centrue Financial	\$37,194	5.5	27,092	4.0	N/A	N/A	
Centrue Bank	60,133	9.0	26,705	4.0	40,057	6.0	
Tier I leverage ratio (to average assets)							
Centrue Financial	\$37,194	3.7	39,768	4.0	N/A	N/A	
Centrue Bank	60,133	6.1	39,681	4.0	49,602	5.0	

31.

## **Centrue Financial Corporation**

Notes to Unaudited Consolidated Financial Statements

**(Table Amounts In Thousands, Except Share Data)**

### **Note 13. Regulatory Matters (Continued)**

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.

The Company has incurred net losses of \$0.5 million for the first quarter 2012 and \$10.6 million for the full year 2011 due to loan losses, reduced net interest income and security OTTI. 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. The Company has sufficient cash at March 31, 2012 and management believes regulatory approval will be obtained for the remaining interest payments due in 2012. 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. At March 31, 2012 and December 31, 2011, the Company had a Tier 1 leverage ratio of 3.8% and 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 May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; 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 amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance is included in this filing and included disclosure only.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. Public Companies: The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment is included in this filing.

In September 2011, the FASB amended existing guidance relating to goodwill impairment testing. The amendment permits an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing these events or circumstances, it is concluded that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments in this guidance are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The adoption of this guidance is included in this filing.

## 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 months ended March 31, 2012 as compared to the same period in 2011. 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 2011 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.

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)

**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 fair value less costs to sell when acquired, establishing a new cost basis. Any write-downs in the carrying value of a property at the time of acquisition are charged against the allowance for loan losses. 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.

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)**

*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 first quarter 2012 was \$1.4 million, compared to \$1.5 million and \$4.3 million for fourth quarter 2011 and first quarter 2011, 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 first quarter of 2012 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 quarters;
- 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 first quarter 2012 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 March 31,	
	2012	2011
Service charges	\$1,049	\$1,062
Mortgage banking income	487	407
Electronic banking services	532	527
Bank-owned life insurance	243	249
Other income	534	164
Subtotal recurring noninterest income	2,845	2,409
Securities gains	16	—
Net impairment on securities	—	(392 )
Gain on sale of OREO	191	44
Gain on sale of other assets	—	63
Total noninterest income	\$3,052	\$2,124

Noninterest income totaled \$3.1 million for the three months ended March 31, 2012, compared to \$2.1 million for the same period in 2011. Excluding credit impairment charges on CDO securities and gains related to the sale of OREO and other assets from both periods, noninterest income increased by \$0.5 million or 20.8%. This \$0.5 million increase was derived from several different categories, one of the largest being income from OREO property.

**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 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 March 31,	
	2012	2011
Salaries and employee benefits	\$3,702	\$3,633
Occupancy expense, net	664	720
Furniture and equipment expenses	384	439
Marketing	75	60
Supplies and printing	68	64
Telephone	175	204
Data processing	307	364
FDIC insurance	518	850
Loan processing and collection costs	536	591
Amortization of intangible assets	237	276
Other expenses	1,446	1,399
Subtotal recurring noninterest expenses	8,112	8,600
OREO valuation adjustment	133	200
Total noninterest expense	\$8,245	\$8,800

Total noninterest expense for the first quarter of 2012 was \$8.2 million, compared to \$8.8 million recorded during the same period in 2011. Excluding OREO valuation adjustments from both periods, noninterest expense levels decreased by \$0.5 million, or 5.8%. This \$0.5 million decline in expenses was spread over various categories, including net occupancy costs, furniture and equipment, telephone, data processing, FDIC insurance, amortization expense, loan processing and collection costs. Adversely impacting expense levels were increases in marketing and salary and employee benefits.

***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 months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012 2011	
Income (loss) before income taxes	\$(500)	\$(3,676)
Applicable income taxes	—	(218 )
Effective tax rates	—	5.9 %

The Company recorded no income tax benefit for the three months ended March 31, 2012 compared to an income tax benefit of \$0.2 million recorded for the three months ended March 31, 2011. Effective tax rates equaled 0% and 5.93% respectively, for such periods. The Company recorded no tax benefit for the three months ended March 31, 2012 due to a full valuation allowance recorded on its deferred tax assets.

The Company recorded a tax benefit of \$0.2 million allocated to the loss from continuing operations in the first quarter of 2011 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 due to the full deferred tax valuation allowance established as of December 31, 2010.

## Centrue Financial Corporation

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

(Table Amounts In Thousands, Except Share Data)

#### 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.

Retail generated a net loss of \$0.5 million in the first quarter 2012 as compared to a net loss of \$1.1 million during the same period in 2011. Retail assets were \$160.3 million at March 31, 2012, \$165.9 million at December 31, 2011 and \$185.2 million as of March 31, 2011. This represented 16.7%, 17.1% and 17.3% of total consolidated assets, respectively.

Earnings results for the first quarter of 2012, when compared to the same period of 2011, were positively impacted by lower provision, lower expenses and higher mortgage banking revenue which were partially offset by a decline in net interest margin due to lower loan balances.

**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 net income of \$0.8 million in the first quarter 2012 as compared to a loss of \$1.0 million during the same period in 2011. Commercial assets were \$461.3 million at March 31, 2012, \$470.1 million at December 31, 2011 and \$574.7 million as of March 31, 2011. This represented 48.0%, 48.6% and 53.5% of total consolidated assets, respectively.

37.

## Centrue Financial Corporation

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

#### (Table Amounts In Thousands, Except Share Data)

Net income results for the first quarter of 2012, when compared to the same period of 2011, were positively impacted by lower provision for loan losses and higher noninterest income. 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 salary expense and loan workout expenses.

**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 \$0.8 million in the first quarter 2012 as compared to a net loss of \$1.4 million, during the same period in 2011. Treasury assets were \$263.0 million at March 31, 2012, \$250.7 million at December 31, 2011 and \$242.0 million at March 31, 2011. This represented 27.3%, 25.9% and 22.5% of total consolidated assets, respectively.

Earnings results for the first quarter of 2012, when compared to the same period of 2011, were positively impacted by improved interest expense due to decreased balances on borrowed funds and no non-cash impairment charge on CDO securities during the period. These positives were partially offset with a significant drop in yield on the security portfolio as higher yielding securities have been sold and replaced with lower yielding instruments with higher premium amortization since March 31, 2011.

## Financial Condition

### *General*

Following are highlights of the March 31, 2012 balance sheet when compared to December 31, 2011:

**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 March 31, 2012 totaled \$253.8 million as compared to \$238.0 million recorded at December 31, 2011. The \$15.8 million, or 6.6%, net increase from year-end 2011 was largely related to enhancing the Company's liquidity position through reinvesting funds resulting from pay-downs in the loan portfolio into security instruments due to limited loan demand.

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 \$7.1 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 \$563.7 million, representing decreases of \$18.7 million, or 3.2% and \$146.8 million or 20.7%, from December 31, 2011 and March 31, 2011, respectively. The net decrease during the first 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.

## Centrue Financial Corporation

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

#### (Table Amounts In Thousands, Except Share Data)

**Deposits.** Total deposits equaled \$843.4 million at March 31, 2012 compared to \$848.6 million recorded at December 31, 2011 and \$922.5 million on record at March 31, 2011. The March 31, 2012 deposit balance represents a decrease of \$5.2 million or 0.6% from December 31, 2011 and \$79.1 million or 8.6% from March 31, 2011. The net decreases from year-end 2011 were largely related to strategic initiatives to reduce higher costing time deposits and collateralized local public agency deposits. Wholesale funding decreased \$8.4 million, as \$8.4 million in maturing brokered certificates of deposits 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.

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.



Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

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

	2012		2011		2010		2009		2008	
	Mar 31,	Mar 31,	Dec 31,	Sep 30,	Jun 30,	Mar 31,	Dec 31,	Sep 30,	Jun 30,	Mar 31,
Nonaccrual loans	\$37,538	\$37,538	\$38,688	\$40,665	\$45,541	\$58,607	\$58,607	\$58,607	\$58,607	\$58,607
Troubled debt restructurings	6,366	6,366	7,147	7,317	6,374	5,124	5,124	5,124	5,124	5,124
Loans 90 days past due and still accruing interest	—	—	—	—	—	—	—	—	—	—
Total nonperforming loans	43,904	43,904	45,835	47,982	51,915	63,731	63,731	63,731	63,731	63,731
Other real estate owned	33,501	33,501	29,667	32,912	35,618	28,581	28,581	28,581	28,581	28,581
Total nonperforming assets	\$77,405	\$77,405	\$75,502	\$80,894	\$87,533	\$92,312	\$92,312	\$92,312	\$92,312	\$92,312
End of period loans	\$563,732	\$563,732	\$582,395	\$620,450	\$660,882	\$710,529	\$710,529	\$710,529	\$710,529	\$710,529
Nonperforming loans to total end of period loans	7.79	%	7.87	%	7.73	%	7.86	%	8.97	%
Nonperforming assets to total end of period loans	13.73	%	12.96	%	13.04	%	13.24	%	12.99	%
Nonperforming assets to total end of period assets	8.05	%	7.80	%	8.02	%	8.56	%	8.60	%

Total nonperforming assets were \$77.4 million, or 8.1% of total assets, at March 31, 2012. This included \$6.4 million in troubled debt restructurings, \$33.5 million of OREO and \$37.5 million of nonaccrual loans. The majority of the OREO is comprised of nine parcels (land development and commercial real estate) which account for 63.5% of the balance. The Company updates these appraisals quarterly to ensure that they are properly carried at their fair market value. Approximately 45.0% of total nonaccrual loans at March 31, 2012 were concentrated in land development and construction credits. Additionally, 64.6% of total nonaccrual loans represented loans to 10 borrowers.

## **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 level of nonperforming loans (nonaccrual, 90 days past due, and troubled debt restructurings) at March 31, 2012 decreased \$1.9 million, or 4.1%, from December 31, 2011 levels and \$19.8 million, or 31.1%, from the \$63.7 million that existed at March 31, 2011. 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 7.79% at March 31, 2012, as compared to 7.87% at December 31, 2011 and 8.97% at March 31, 2012. As a result of the decrease in nonperforming loans, the coverage ratio (allowance to nonperforming loan) was reported at 46.3% as of March 31, 2012 as compared to 46.3% as of December 31, 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 first quarter of 2012, \$22.8 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 34.8% of the loans deemed impaired as of the March 31, 2012, whereas, 38.99% of impaired loans were performing at December 31, 2011. Excluding nonperforming loans and loans that management has classified as impaired, there are other potential problem loans that totaled \$11.0 million at March 31, 2012 as compared to \$12.4 million at December 31, 2011. 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.

#### ***Allowance for Loan Losses***

At March 31, 2012, the allowance for loan losses was \$20.3 million, or 3.6% of total loans, as compared to \$21.2 million, or 3.7%, at December 31, 2011 and \$29.1 million, or 4.1%, of total loans at March 31, 2011.

The Company recorded a provision of \$1.4 million to the allowance for loan losses in the first quarter 2012 which represents a decrease from prior quarters largely due to the following factors:

- lowering levels of nonperforming loans;
- 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 first quarter of 2012 were \$2.2 million, or 0.2% of average loans, compared with \$3.6 million, or 0.5% of average loans, for the fourth quarter of 2011 and \$6.7 million, or 0.9% of average loans, for the first quarter of 2011. Loan charge-offs during the first quarter of 2012 were largely influenced by the credit performance of the Company's commercial and residential real estate portfolios. 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 first quarter 2012 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 March 31, 2012 represented probable incurred credit losses inherent in the loan portfolio.

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)**

#### **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 loss for the three months ended March 31, 2012 equaled \$0.5 million or \$0.17 per common diluted share as compared to a net loss of \$3.5 million or \$0.65 per common diluted share in the first quarter of 2011 and net income of \$0.1 million or a loss of \$0.08 per common diluted share in the fourth quarter of 2011. The Company's principal subsidiary, Centrue Bank (the "Bank"), posted net income of \$0.03 million for the first quarter compared to net income of \$0.6 million for the fourth quarter of 2011 and a net loss of \$3.0 million for the first quarter of 2011.

The results for the first quarter 2012 were adversely impacted by a \$1.4 million provision for loan losses largely related to asset quality deterioration in the Company's commercial and residential real estate portfolios. During the first quarter of 2011, the Company recorded a \$4.3 million provision for loan losses, \$0.2 million OREO valuation adjustment and \$0.4 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 first quarter 2012 decreased 17.6% to \$6.1 million as compared to \$7.4 million for the same period in 2011. The decrease in net interest income from 2011 was primarily due to average loan volume decline, increased rate competition for loan renewals 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.

The net interest margin was 3.02% for the first quarter of 2012, representing a decrease of 7 basis points from the 3.09% recorded at the first and fourth quarters of 2011. The Bank's net interest margin was 3.21% for the first quarter of 2012, representing decreases of 6 basis points from 3.27% recorded in fourth quarter 2011 and 3 basis points from 3.24% from the first quarter of 2011. The decrease in the first quarter 2012 net interest margin, as compared to the same period in 2011, was primarily related to 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 2012.

**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 March 31,									
	2012		2011		Interest	Average	Change Due To:			
	Average	Interest	Average	Average	Income/	Rate	Volume	Rate	Net	
	Balance	Income/ Expense	Rate	Balance	Expense					
<b>ASSETS</b>										
Interest-earning assets										
Interest-earning deposits	\$2,790	\$23	3.24 %	\$3,152	\$23	2.92 %	\$—	\$—	\$—	
Securities										
Taxable	223,133	829	1.49	210,041	990	1.91	247	(408 )	(161 )	
Non-taxable	13,261	192	5.80	25,064	333	5.39	(145 )	4	(141 )	
Total securities (tax equivalent)	236,394	1,021	1.73	235,105	1,323	2.28	102	(404 )	(302 )	
Federal funds sold	5,620	16	1.12	1,009	8	3.26	21	(13 )	8	
Loans										
Commercial	92,875	1,214	5.25	148,388	1,983	5.42	(656 )	(113 )	(769 )	
Real estate	476,652	5,785	4.87	579,191	7,251	5.08	(930 )	(536 )	(1,466)	
Installment and other	1,608	53	13.15	2,444	68	11.32	(15)	—	(15 )	
Gross loans (tax equivalent)	571,135	7,052	4.95	730,023	9,302	5.17	(1,601)	(649 )	(2,250)	
Total interest-earnings assets	815,939	8,112	3.99	969,289	10,656	4.46	(1,478)	(1,066)	(2,544)	

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

Noninterest-earning assets										
Cash and cash equivalents	65,533			58,254						
Premises and equipment, net	23,550			25,471						
Other assets	55,183			44,715						
Total nonearning assets	144,266			128,440						
Total assets	\$960,205			\$1,097,729						
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>										
Interest-bearing liabilities										
NOW accounts	86,373	20	0.09	85,715	46	0.22	8	(34 )	(26 )	
Money market accounts	119,792	93	0.31	127,338	241	0.77	29	(177 )	(148 )	
Savings deposits	98,646	13	0.05	96,590	35	0.15	7	(29 )	(22 )	
Time deposits	408,959	1,274	1.25	502,960	2,165	1.75	(201 )	(691 )	(892 )	
Federal funds purchased and repurchase Agreements	17,338	11	0.25	18,450	11	0.24	—	—	—	
Advances from FHLB	23,058	186	3.24	56,170	412	2.97	(249 )	23	(226 )	
Notes payable	31,415	392	5.01	31,807	364	4.64	9	19	28	
Total interest-bearing liabilities	785,581	1,989	1.02	919,030	3,274	1.45	(397 )	(889 )	(1,286)	
Noninterest-bearing liabilities										
Noninterest-bearing deposits	127,374			120,643						
Other liabilities	15,127			16,171						
Total noninterest-bearing liabilities	142,501			136,814						
Stockholders' equity	32,123			41,885						
Total liabilities and stockholders' equity	\$960,205			\$1,097,729						

Net interest income (tax equivalent)	\$6,123		\$7,382		\$(1,081)	\$(177 )	\$(1,258)
Net interest income (tax equivalent) to total earning assets		3.02 %			3.09 %		
Interest-bearing liabilities to earning assets	96.28 %		94.81 %				

- (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.

### *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 \$843.4 million, representing decreases of \$5.2 million, or 0.6%, from December 31, 2011 and \$79.1 million, or 8.6%, from March 31, 2011. During the quarter, in-market deposits increased \$3.2 million or 0.4%, primarily as the result of increases in balances in savings accounts. Wholesale funding (brokered deposits and FHLB advances) decreased \$8.4 million or 9.1%, as brokered deposits matured and were not replaced.



## **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 March 31, 2012, the Company maintained borrowing capacity of \$12.2 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 \$58.0 million as of March 31, 2012.

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 \$7.2 million from December 31, 2011 to March 31, 2012.

During the first quarter of 2012, the Company experienced net cash inflows of \$3.1 million in operating activities. In contrast, net cash outflows of \$3.3 million in investing activities and \$7.1 million were used in financing activities largely due to the repayment on wholesale funding and decreases in deposits.

At December 31, 2011, the parent Company had \$2.0 million in cash and cash equivalents. During the first quarter of 2012, the parent Company experienced net cash outflow of \$0.2 million leaving \$1.8 million in cash and cash equivalents available at March 31, 2012. 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 of the Unaudited Consolidated Financial Statements of the Company.

43.

**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 March 31, 2012:

	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	190	10,000		—	10,190
Certificates of deposit	285,368	88,284	26,496	92	400,240
Operating leases	249	504	504	252	1,509
Series B mandatory redeemable preferred stock		268			268
Subordinated debentures				20,620	20,620
FHLB advances	3,000	15,057	5,000	—	23,057
Total contractual cash obligations	\$288,807	\$114,363	\$32,000	\$20,964	\$456,134

	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	\$87,245	\$2,495	\$4,122	\$21,432	\$115,294
Standby letters of credit	1,951	142	—	—	2,093
Total contractual cash obligations	\$89,196	\$2,637	\$4,122	\$21,432	\$117,387

## **Capital Resources**

### *Stockholders' Equity*

Stockholders' equity at March 31, 2012 was \$32.8 million, an increase of \$0.2 million, or 0.6%, from \$32.6 million at December 31, 2011. The change in stockholders' equity was largely related to a positive change in Accumulated Other Comprehensive Income during the first quarter of 2012.

### *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.

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)

***Capital Measurements***

As reflected in the following table, the Bank was considered "well-capitalized" under regulatory defined capital ratios as of March 31, 2012, however the Company was "less than adequately-capitalized" due to the Tier 1 leverage ratio which was 3.8% being below the threshold for "adequately-capitalized" of 4%. See Note 13 to the Unaudited Consolidated Financial Statements for additional disclosure on the capital threshold levels:

	Centrue Financial		Centrue Bank		Well- Capitalized Thresholds
	Mar 31, 2012	Dec 31, 2011	Mar 31, 2012	Dec 31, 2011	
Carrying amounts (\$millions):					
Total risk-based capital	\$60.2	\$61.2	\$68.8	\$68.6	
Tier 1 risk-based capital	\$36.1	\$37.2	\$60.4	\$60.1	
Tangible common equity	\$(5.4)	\$(5.9)	\$63.4	\$62.0	
Capital ratios:					
Total risk-based capital	9.0 %	9.0 %	10.5 %	10.3 %	10.0 %
Tier 1 risk-based capital	5.4 %	5.5 %	9.2 %	9.0 %	6.0 %
Tier 1 leverage ratio	3.8 %	3.7 %	6.3 %	6.1 %	5.0 %

Total capital and some corresponding capital ratios decreased during the first quarter 2012 for the Company due to net operating losses and a reduction in tier II capital caused by a sub-debt phase-out provision. The Bank had a slight increase in capital ratios from a small operating profit.

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.

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)

#### 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.

46.



**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, 200 and 300 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 March 31, 2012 and December 31, 2011, respectively:

	Change in Net Interest Income Over One Year Horizon			
	March 31, 2012		December 31, 2011	
	Change \$	%	Change \$	%
+ 300 bp	\$718	2.76 %	\$1,442	5.45 %
+ 200 bp	394	1.52	743	2.81
+ 100 bp	(17 )	(0.07)	174	0.66
+ 50 bp	(73 )	(0.28)	107	0.41
Base	—	—	—	—
- 50 bp	(310)	(1.19)	(299 )	(1.13)

As shown above, the effect of an immediate 200 basis point increase in interest rates as of March 31, 2012 would increase the Company's net interest income by \$0.4 million or 1.5%. The effect of an immediate 50 basis point decrease in rates would decrease the Company's net interest income by \$0.3 million or 1.2%.

47.

**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.

48.

## **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, 2011.

### **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 March 31, 2012, the amount of the arrearages on the various instruments was as follows: Junior subordinated debentures: \$3.0 million; Series A convertible preferred stock: \$0.6 million; Series B mandatory redeemable preferred stock: \$0.04 million; and Series C fixed rate, cumulative perpetual preferred stock: \$5.0 million.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

49.

**Item 6. Exhibits**

Exhibits:

- 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, Executive Vice President and Principal Financial and Accounting Officer required by Rule 13a – 14(a).
  - 32.1<sup>(1)</sup> 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<sup>(1)</sup> 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 Executive Vice President and Principal Financial and Accounting Officer
- 101<sup>(2)</sup> 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.
- 

This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or (1) 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.

50.

**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: May 15, 2012 By: /s/ Kurt R. Stevenson  
Kurt R. Stevenson  
President and Principal Executive Officer

Date: May 15, 2012 By: /s/ Daniel R. Kadolph  
Daniel R. Kadolph  
*Executive Vice President and Principal Financial and Accounting Officer*