

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

CENTRUE FINANCIAL CORP  
Form 10-Q  
November 13, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT  
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2007

Commission File Number: 0-28846

Centrue Financial Corporation

-----  
(Exact name of Registrant as specified in its charter)

Delaware 36-3145350  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) Number)

122 West Madison Street, Ottawa, Illinois 61350  
(Address of principal executive offices including zip code)

(815) 431-2720  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer .

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 November 13, 2007 |
|---|---|
| -----<br>Common Stock, Par Value \$1.00 | -----<br>6,226,028                      |

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Centrue Financial Corporation  
Form 10-Q Index

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September 30, 2007

Page

----

|          |   |    |
|----------|---|----|
| PART I.  | FINANCIAL INFORMATION   |    |
| Item 1.  | Financial Statements  |    |
|          | o Unaudited Consolidated Balance Sheets.....  | 1  |
|          | o Unaudited Consolidated Statements of Income and<br>Comprehensive Income .....               | 2  |
|          | o Unaudited Consolidated Statements of Cash Flows.....  | 4  |
|          | o Notes to Unaudited Consolidated Financial Statements.....                                   | 5  |
| Item 2.  | Management's Discussion and Analysis of Financial Condition<br>and Results of Operations..... | 15 |
| Item 3.  | Quantitative and Qualitative Disclosures<br>About Market Risk .....                           | 28 |
| Item 4.  | Controls and Procedures .....   | 29 |
| PART II. | OTHER INFORMATION   |    |
| Item 1.  | Legal Proceedings.....  | 30 |
| Item 1A. | Risk Factors.....   | 30 |
| Item 2.  | Unregistered Sales of Equity Securities and Use of Proceeds.....                              | 30 |
| Item 3.  | Defaults Upon Senior Securities.....  | 30 |
| Item 4.  | Submission of Matters to a Vote of Security Holders.....                                      | 31 |
| Item 5.  | Other Information .....   | 31 |
| Item 6.  | Exhibits.....   | 31 |
|          | SIGNATURES.....   | 32 |

CENTRUE FINANCIAL CORPORATION  
PART I FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
UNAUDITED CONSOLIDATED BALANCE SHEETS  
September 30, 2007 and December 31, 2006 (In Thousands, Except Per Share Data)

-----

September 30,  
2007

-----

ASSETS

|                               |    |         |
|-------------------------------|----|---------|
| Cash and cash equivalents     | \$ | 55,008  |
| Securities available-for-sale |    | 265,873 |

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|   |              |
|---|--------------|
| Loans   | 933,903      |
| Allowance for loan losses   | (10,852)     |
|   | -----        |
| Net loans   | 923,051      |
| Cash surrender value of life insurance  | 26,644       |
| Mortgage servicing rights   | 3,223        |
| Premises and equipment, net   | 35,783       |
| Goodwill  | 25,403       |
| Intangible assets, net  | 11,541       |
| Other real estate   | 4,620        |
| Other assets  | 12,100       |
|   | -----        |
| Total assets  | \$ 1,363,246 |
|   | =====        |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |              |
| Liabilities   |              |
| Deposits  |              |
| Non-interest-bearing  | \$ 109,189   |
| Interest-bearing  | 954,616      |
|   | -----        |
| Total deposits  | 1,063,805    |
| Federal funds purchased and securities sold<br>under agreements to repurchase   | 52,295       |
| Advances from the Federal Home Loan Bank  | 80,724       |
| Notes payable   | 12,397       |
| Series B mandatory redeemable preferred stock   | 831          |
| Subordinated debentures   | 20,620       |
| Other liabilities   | 12,340       |
|   | -----        |
| Total liabilities   | 1,243,012    |
|   | -----        |
| Stockholders' equity  |              |
| Series A convertible preferred stock (aggregate liquidation<br>preference of 2,762)   | 500          |
| Common stock, \$1 par value, 15,000,000 shares authorized;<br>7,436,110 shares issued at September 30, 2007 and<br>7,412,210 shares issued at December 31, 2006 | 7,436        |
| Surplus   | 70,867       |
| Retained earnings   | 58,126       |
| Accumulated other comprehensive income  | 437          |
|   | -----        |
| Total stockholders' equity  | 137,366      |
| Treasury stock, at cost 1,174,982 shares at September 30, 2007<br>and 957,142 at December 31, 2006  | (17,132)     |
|   | -----        |
| Total stockholders' equity  | 120,234      |
|   | -----        |
| Total liabilities and stockholders' equity  | \$ 1,363,246 |
|   | =====        |

See Accompanying Notes to Unaudited Financial Statements

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CENTRUE FINANCIAL CORPORATION  
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 Three and Nine Months Ended September 30, 2007 and 2006  
 (In Thousands, Except Per Share Data)

|   | Three Months Ended<br>September 30, |          | Nine Months<br>September |           |
|---|-------------------------------------|----------|--------------------------|-----------|
|   | 2007                                | 2006     | 2007                     | 2006      |
| Interest income   |                                     |          |                          |           |
| Loans   | \$ 18,000                           | \$ 7,444 | \$ 50,963                | \$ 48,111 |
| Securities  |                                     |          |                          |           |
| Taxable   | 3,071                               | 2,065    | 9,543                    | 9,543     |
| Exempt from federal income taxes  | 378                                 | 218      | 1,141                    | 1,141     |
| Federal funds sold and other  | 112                                 | 75       | 380                      | 380       |
| Total interest income   | 21,561                              | 9,802    | 62,027                   | 60,555    |
| Interest expense  |                                     |          |                          |           |
| Deposits  | 9,734                               | 4,128    | 27,994                   | 27,994    |
| Federal funds purchased and securities<br>sold under agreements to repurchase | 536                                 | 69       | 1,409                    | 1,409     |
| Advances from the Federal Home Loan Bank<br>Series B Mandatory Redeemable     | 636                                 | 364      | 1,909                    | 1,909     |
| Subordinated debentures   | 12                                  | 12       | 37                       | 37        |
| Notes payable   | 395                                 | -        | 1,293                    | 1,293     |
| Notes payable   | 164                                 | 155      | 487                      | 487       |
| Total interest expense  | 11,477                              | 4,728    | 33,129                   | 33,129    |
| Net interest income   | 10,084                              | 5,074    | 28,898                   | 27,426    |
| Provision for loan losses   | -                                   | (200)    | 226                      | 226       |
| Net interest income after<br>Provision for loan losses                        | 10,084                              | 5,274    | 28,672                   | 27,200    |
| Noninterest income  |                                     |          |                          |           |
| Service charges   | 1,725                               | 476      | 5,063                    | 5,063     |
| Trust income  | 243                                 | 202      | 704                      | 704       |
| Mortgage banking income   | 399                                 | 240      | 1,282                    | 1,282     |
| Brokerage commissions and fees  | 416                                 | 87       | 646                      | 646       |
| Bank owned life insurance (BOLI)  | 252                                 | 153      | 740                      | 740       |
| Securities (losses)   | -                                   | -        | (33)                     | (33)      |
| Gain on sale of Oreo  | 459                                 | -        | 1,047                    | 1,047     |
| Other income  | 873                                 | 323      | 2,366                    | 2,366     |
| Total noninterest income  | 4,367                               | 1,481    | 11,815                   | 11,815    |
| Noninterest expenses  |                                     |          |                          |           |
| Salaries and employee benefits  | 3,891                               | 2,630    | 14,183                   | 14,183    |
| Occupancy expense, net  | 1,028                               | 356      | 2,988                    | 2,988     |
| Furniture and equipment expense   | 616                                 | 515      | 1,938                    | 1,938     |
| Marketing   | 325                                 | 88       | 738                      | 738       |
| Supplies and printing   | 137                                 | 71       | 474                      | 474       |
| Telephone   | 198                                 | 104      | 586                      | 586       |
| Amortization of intangible assets   | 562                                 | 11       | 1,774                    | 1,774     |
| Other expenses  | 1,874                               | 816      | 5,744                    | 5,744     |

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8,631

4,591

28,425

See Accompanying Notes to Unaudited Financial Statements

2.

CENTRUE FINANCIAL CORPORATION  
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 Three and Nine Months Ended September 30, 2007 and 2006  
 (In Thousands, Except Per Share Data)

|  | Three Months Ended<br>September 30, |           | Nine Months<br>September |    |
|--|-------------------------------------|-----------|--------------------------|----|
|  | 2007                                | 2006      | 2007                     |    |
| Income from continuing operations<br>before income taxes   | 5,820                               | 2,164     | 12,062                   |    |
| Income taxes   | 1,982                               | 658       | 3,819                    |    |
| Income from continuing operations                          | 3,838                               | 1,506     | 8,243                    |    |
| Discontinued operations:                                   |                                     |           |                          |    |
| Loss from discontinued operations                          | -                                   | (440)     | -                        |    |
| Income tax benefit   | -                                   | (170)     | -                        |    |
| Gain (loss) on discontinued operations                     | -                                   | (270)     | -                        |    |
| Net income   | \$ 3,838                            | \$ 1,236  | \$ 8,243                 | \$ |
| Preferred stock dividends                                  | 52                                  | 52        | 156                      |    |
| Net income for common stockholders                         | \$ 3,786                            | \$ 1,184  | \$ 8,087                 | \$ |
| Basic earnings per share from<br>continuing operations     | \$ 0.60                             | \$ 0.39   | \$ 1.26                  | \$ |
| Diluted earnings per share from<br>continuing operations   | \$ 0.60                             | \$ 0.38   | \$ 1.26                  | \$ |
| Basic earnings per share from<br>discontinued operations   | \$ -                                | \$ (0.07) | \$ -                     | \$ |
| Diluted earnings per share from<br>discontinued operations | \$ -                                | \$ (0.07) | \$ -                     | \$ |
| Basic earnings per common share                            | \$ 0.60                             | \$ 0.32   | \$ 1.26                  | \$ |

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|   |          |          |          |       |
|---|----------|----------|----------|-------|
| Diluted earnings per common share                                       | \$ 0.60  | \$ 0.31  | \$ 1.26  | \$    |
|   | =====    | =====    | =====    | ===== |
| Total comprehensive income:   |          |          |          |       |
| Net income  | \$ 3,838 | \$ 1,236 | \$ 8,243 | \$    |
| Change in unrealized gains (losses) on<br>available for sale securities | 2,008    | 2,024    | 330      |       |
| Tax effect  | 778      | 784      | 128      |       |
|   | -----    | -----    | -----    | ----- |
| Total comprehensive income, net of tax                                  | 1,230    | 1,240    | 202      |       |
|   | -----    | -----    | -----    | ----- |
| Total comprehensive income  | \$ 5,068 | \$ 2,476 | \$ 8,445 | \$    |
|   | =====    | =====    | =====    | ===== |

See Accompanying Notes to Unaudited Financial Statements

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3.

CENTRUE FINANCIAL CORPORATION  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Nine Months Ended September 30, 2007 and 2006 (In Thousands)

|   | Nine Months En<br>September 30 |       |
|---|--------------------------------|-------|
|   | 2007                           |       |
|   | -----                          | ----- |
| Cash flows from operating activities  |                                |       |
| Net Income  | \$ 8,243                       | \$    |
| Adjustments to reconcile net income to<br>Net cash provided by operating activities |                                |       |
| Depreciation  | 1,545                          |       |
| Amortization of intangible assets   | 1,773                          |       |
| Amortization of mortgage servicing rights, net                                      | 287                            |       |
| Amortization of bond premiums, net  | 152                            |       |
| Stock option expense  | 72                             |       |
| Provision for loan losses   | 226                            |       |
| Provision for deferred income taxes   | (3,778)                        |       |
| Loss on sale of securities  | 33                             |       |
| Gain (loss) on sale of loans  | (938)                          |       |
| (Gain) loss on sale of OREO acquired in settlement of loans                         | (1,047)                        |       |
| Proceeds from sales of loans held for sale  | 62,208                         |       |
| Origination of loans held for sale  | (65,246)                       |       |
| Change in assets and liabilities  |                                |       |
| Decrease (increase) in other assets   | 4,319                          |       |
| Increase (decrease) in other liabilities  | 2,946                          |       |
|   | -----                          | ----- |
| Net cash provided by operating activities   | 10,795                         |       |
| Cash flows from investing activities  |                                |       |
| Securities available-for-sale   |                                |       |
| Proceeds from maturities and paydowns   | 35,636                         |       |
| Proceeds from sales   | 2,497                          |       |
| Purchases   | (4,557)                        |       |

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|   |           |       |
|---|-----------|-------|
| Redemption of FHLB stock  | -         |       |
| Purchase of loans   | -         |       |
| Net (increase) decrease in loans                                    | (101,092) |       |
| Purchase of premises and equipment                                  | (1,925)   |       |
| Sale of branch  | -         |       |
| Sale of insurance unit  | -         |       |
| Purchase of Missouri Bank charter                                   | (581)     |       |
| Proceeds from sale of OREO acquired in settlement of loans          | 6,386     |       |
|   | -----     |       |
| Net cash provided by (used in) investing activities                 | (63,636)  |       |
| Cash flows from financing activities                                |           |       |
| Net increase (decrease) in deposits                                 | 37,195    |       |
| Net increase in federal funds purchased                             |           |       |
| And securities sold under agreements to repurchase                  | 15,976    |       |
| Payments on notes payable   | (368)     |       |
| Proceeds from notes payable   | 3,750     |       |
| Net increase (decrease) in advances from the Federal Home Loan Bank | 17,577    |       |
| Dividends on common stock   | (2,432)   |       |
| Dividends on preferred stock  | (156)     |       |
| Proceeds from exercise of stock options                             | 358       |       |
| Purchase of treasury stock  | (4,246)   |       |
|   | -----     |       |
| Net cash provided by (used in) financing activities                 | 67,654    |       |
|   | -----     |       |
| Net increase (decrease) in cash and cash equivalents                | 14,813    |       |
| Cash and cash equivalents   |           |       |
| Beginning of period   | 40,195    |       |
|   | -----     |       |
| End of period   | \$ 55,008 | \$    |
|   | =====     | ===== |
| Supplemental disclosures of cash flow information                   |           |       |
| Cash payments for   |           |       |
| Interest  | \$ 31,619 | \$    |
| Income taxes  | 952       |       |
| Transfers from loans to other real estate owned                     | 7,900     |       |

See Accompanying Notes to Unaudited Financial Statements

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4.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)  
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Note 1. Summary of Significant Accounting Policies

Centrue Financial Corporation (the "Company") is a bank holding company for Centrue Bank. During the fourth quarter of 2006, the former UnionBancorp, Inc. completed its merger with Centrue Financial Corporation with UnionBancorp, Inc. being the surviving entity in this merger. Upon completion of the merger, UnionBancorp, Inc. changed its name to Centrue Financial Corporation. The accompanying unaudited interim consolidated financial statements of Centrue Financial Corporation have been prepared in accordance with U.S. generally accepted accounting principles and with the rules and regulations of the

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Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all of the information and footnotes required for complete financial statements. 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. Actual results could differ from those estimates. Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

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, 2006. The annualized results of operations during the three and nine months ended September 30, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007. All financial information is in thousands (000s), except shares and per share data. The consolidated financial statements reflect the results of the Company's insurance unit of the Wealth Management segment as a discontinued operation as described in Note 8.

### Note 2. Earnings Per Share

Basic earnings per share for the three and nine months ended September 30, 2007 and 2006 were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share for the three and nine months ended September 30, 2007 and 2006 were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the stock options. Computations for basic and diluted earnings per share are provided below:

|   | Three Months Ended<br>September 30, |          | Nine Months<br>September |    |
|---|-------------------------------------|----------|--------------------------|----|
|   | 2007                                | 2006     | 2007                     |    |
| <b>Basic Earnings Per Common Share</b>                  |                                     |          |                          |    |
| Net income available to common shareholders             | \$ 3,786                            | \$ 1,184 | \$ 8,087                 | \$ |
| Weighted average common shares outstanding              | 6,322                               | 3,743    | 6,399                    |    |
|   | \$ 0.60                             | \$ 0.32  | \$ 1.26                  | \$ |
| <b>Diluted Earnings Per Common Share</b>                |                                     |          |                          |    |
| Weighted average common shares outstanding              | 6,322                               | 3,743    | 6,399                    |    |
| Add: dilutive effect of assumed exercised stock options | 36                                  | 40       | 34                       |    |
|   | 6,358                               | 3,783    | 6,433                    |    |
| Diluted earnings per common share                       | \$ 0.60                             | \$ 0.31  | \$ 1.26                  | \$ |

There were approximately 244,200 and 102,500 options outstanding for the three months ended September 30, 2007 and 2006, respectively that were not included in the computation of diluted earnings per share. There were approximately 276,200

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and 85,000 options outstanding for the nine months ended September 30, 2007 and 2006, respectively that were not included in the computation of diluted earnings per share. These options were antidilutive since the exercise prices were greater than the average market price of the common stock.

5.

CENTRUE FINANCIAL CORPORATION  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In Thousands, Except Per Share Data)

Note 3. Securities

The Company's consolidated securities portfolio, which represented 22.7% of the Company's 2007 third quarter average earning asset base, is managed to minimize interest rate risk, maintain sufficient liquidity and maximize return. All of the Company's securities are classified as available-for-sale and are carried at fair value. The Company does not have any securities classified as trading or held-to-maturity.

The following table describes the fair value, gross unrealized gains and losses of securities available-for-sale at September 30, 2007 and December 31, 2006, respectively:

|   | September 30, 2007 |                        |                         | P     |
|---|--------------------|------------------------|-------------------------|-------|
|   | Fair Value         | Gross Unrealized Gains | Gross Unrealized Losses |       |
| U.S. government agencies                    | \$ 118,053         | \$ 745                 | \$ (53)                 |       |
| States and political subdivisions           | 41,722             | 226                    | (101)                   |       |
| U. S. government mortgage-backed securities | 50,499             | 212                    | (214)                   |       |
| Collateralized mortgage obligations         | 24,625             | 5                      | (155)                   |       |
| Equity securities                           | 27,244             | 153                    | (90)                    |       |
| Corporate                                   | 3,730              | 3                      | (18)                    |       |
|   | <u>\$ 265,873</u>  | <u>\$ 1,344</u>        | <u>\$ (631)</u>         |       |
|   | =====              | =====                  | =====                   | ===== |

  

|   | December 31, 2006 |                        |                         | P |
|---|-------------------|------------------------|-------------------------|---|
|   | Fair Value        | Gross Unrealized Gains | Gross Unrealized Losses |   |
| U.S. government agencies                    | \$ 126,039        | \$ 308                 | \$ (245)                |   |
| States and political subdivisions           | 41,471            | 329                    | (9)                     |   |
| U. S. government mortgage-backed securities | 69,579            | 253                    | (393)                   |   |
| Collateralized mortgage obligations         | 27,237            | 44                     | (77)                    |   |
| Equity securities                           | 25,602            | 171                    | -                       |   |

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|           |            |          |          |
|-----------|------------|----------|----------|
| Corporate | 8,764      | 16       | (13)     |
|           | -----      | -----    | -----    |
|           | \$ 298,692 | \$ 1,121 | \$ (737) |
|           | =====      | =====    | =====    |

Management does not believe any individual unrealized losses as of September 30, 2007, identified in the preceding tables represent other-than-temporary impairment. These unrealized losses are primarily attributable to changes in the interest rates. The Company has both the intent and ability to hold each of the securities shown in the table for the time necessary to recover its amortized cost. The unrealized loss on the available for sale securities is included, net of tax, in other comprehensive income.

Sales of securities available-for-sale were as follows:

|                 | Three Months Ended<br>September 30, |      | Nine Months<br>September |    |
|-----------------|-------------------------------------|------|--------------------------|----|
|                 | 2007                                | 2006 | 2007                     |    |
| Proceeds        | \$ -                                | \$ - | \$ 2,497                 | \$ |
| Realized gains  | \$ -                                | \$ - | \$ 4                     | \$ |
| Realized losses | \$ -                                | \$ - | \$ (37)                  | \$ |

6.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

Note 4. Loans

The following table describes the composition of loans by major categories outstanding as of September 30, 2007 and December 31, 2006, respectively:

|                      | September 30, 2007 |       | December 31, 2006 |       |
|----------------------|--------------------|-------|-------------------|-------|
|                      | \$                 | %     | \$                | %     |
| Commercial           | \$ 153,163         | 16.4% | \$ 154,829        | 16.4% |
| Agricultural         | 22,510             | 2.4   | 23,118            | 2.4   |
| Real estate:         |                    |       |                   |       |
| Commercial mortgages | 366,966            | 39.3  | 274,909           | 28.8  |
| Construction         | 148,533            | 15.9  | 116,608           | 12.3  |
| Agricultural         | 24,413             | 2.6   | 27,624            | 2.9   |
| 1-4 family mortgages | 206,830            | 22.2  | 226,884           | 24.0  |
| Installment          | 9,480              | 1.0   | 11,998            | 1.3   |
| Other                | 2,008              | 0.2   | 974               | 0.1   |

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|                           |            |        |            |
|---------------------------|------------|--------|------------|
| Total loans               | 933,903    | 100.0% | 836,944    |
|                           |            | =====  |            |
| Allowance for loan losses | (10,852)   |        | (10,835)   |
|                           | -----      |        | -----      |
| Loans, net                | \$ 923,051 |        | \$ 826,109 |
|                           | =====      |        | =====      |

The following table presents data on impaired loans:

|   |                       |
|---|-----------------------|
|   | September 30,<br>2007 |
|   | -----                 |
| Impaired loans for which an allowance has been provided                                 | \$ 6,174              |
| Impaired loans for which no allowance has been provided                                 | 5,999                 |
|   | -----                 |
| Total loans determined to be impaired   | \$ 12,173             |
|   | =====                 |
| Allowance for loan loss for impaired loans included in the allowance<br>for loan losses | \$ 2,225              |
|   | =====                 |

In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, current economic conditions; the type of loan being made; the creditworthiness of the borrower over the term of the loan; and in the case of a collateralized loan, the quality of the collateral for such loan. The allowance for loan losses represents the Company's estimate of the allowance necessary to provide for probable incurred losses in the loan portfolio. In making this determination, the Company analyzes the ultimate collectibility of the loans in its portfolio; incorporating feedback provided by internal loan staff; the independent loan review function; and information provided by regulatory agencies. As of September 30, 2007, the Company had \$600 of loans held for sale as compared to \$4,850 for December 31, 2006.

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7.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)  
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Note 4. Loans (continued)

The Company conducts a quarterly evaluation as to the adequacy of the allowance for loan losses. Transactions in the allowance for loan losses for the three and nine months ended September 30, 2007 and 2006 are summarized below:

Three Months Ended  
September 30,  
-----

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|  | 2007       | 2006       |       |
|--|------------|------------|-------|
|  | -----      | -----      | ----- |
| Beginning balance  | \$ 10,828  | \$ 6,848   | \$    |
| Charge-offs  | (81)       | (631)      |       |
| Recoveries   | 105        | 86         |       |
| Provision for loan losses  | -          | (200)      |       |
|  | -----      | -----      |       |
| Ending balance   | \$ 10,852  | \$ 6,103   | \$    |
|  | =====      | =====      | ===== |
| Period end total loans   | \$ 933,903 | \$ 407,015 | \$    |
|  | =====      | =====      | ===== |
| Average loans  | \$ 921,608 | \$ 403,049 | \$    |
|  | =====      | =====      | ===== |
| Ratio of net charge-offs to average loans                          | 0.00 %     | 0.14 %     |       |
| Ratio of provision for loan losses to average loans                | 0.00       | (0.05)     |       |
| Ratio of allowance for loan losses<br>to period end total loans    | 1.16       | 1.50       |       |
| Ratio of allowance for loan losses<br>to total nonperforming loans | 194.72     | 189.48     |       |
| Ratio of allowance for loan losses<br>to average loans             | 1.18       | 1.51       |       |

Note 5. Stock Option Plans

In 1999, the Company adopted the 1999 Option Plan. Under the 1999 Option Plan, nonqualified options may be granted to employees and eligible directors of the Company and its subsidiaries to purchase the Company's common stock at 100% of the fair market value on the date the option is granted. The Company has authorized 50,000 shares for issuance under the 1999 Option Plan. During 1999, 40,750 of these shares were granted and are 100% fully vested. The options have an exercise period of ten years from the date of grant. There are 9,250 shares available for grant under this plan.

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, as amended on April 24, 2007, 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 ten years from the date of grant. There are 455,000 shares available for grant under this plan.

In addition to the Company plans described above, in conjunction with the merger, all outstanding options of the former Centrue Financial were converted into options to acquire Company common stock, as adjusted for the exchange ratio. Following the merger, no additional options are issuable under any of the former Centrue plans.

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CENTRUE FINANCIAL CORPORATION  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In Thousands, Except Per Share Data)

Note 5. Stock Option Plans (continued)

A summary of the status of the option plans as of September 30, 2007, and changes during the period ended on those dates is presented below:

|                                   | Shares   | Weighted-Average Exercise Price | September 30, 2007 |
|-----------------------------------|----------|---------------------------------|--------------------|
| Outstanding at January 1, 2007    | 494,424  | \$ 18.47                        |                    |
| Granted                           | 58,000   | 19.22                           |                    |
| Exercised                         | (23,900) | 12.66                           |                    |
| Forfeited                         | (2,500)  | 14.22                           |                    |
| Outstanding at end of period      | 526,024  | \$ 18.85                        |                    |
| Options exercisable at period end | 436,024  | \$ 18.75                        |                    |

Options outstanding at September 30, 2007 and December 31, 2006 were as follows:

| Range of Exercise Prices | Number  | Weighted-Average Remaining Contractual Life |
|--------------------------|---------|---|
| September 30, 2007:      |         |   |
| \$ 11.25 - \$ 13.00      | 46,381  | 3.1 years                                   |
| 13.88 - 18.50            | 145,443 | 3.4 years                                   |
| 20.30 - 23.29            | 334,200 | 4.7 years                                   |
|                          | 526,024 | 4.3 years                                   |
| December 31, 2006:       |         |   |
| \$ 7.25 - \$ 9.75        | 7,000   | 0.2 years                                   |
| 11.25 - 13.00            | 53,931  | 3.4 years                                   |
| 13.88 - 18.50            | 157,293 | 4.1 years                                   |
| 20.30 - 23.29            | 276,200 | 6.1 years                                   |

494,424                      5.1 years  
 =====

9.

CENTRUE FINANCIAL CORPORATION  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In Thousands, Except Per Share Data)

Note 5. Stock Option Plans (continued)

Information related to the stock option plan during the quarter ended September 30, 2007 and 2006 is as follows:

|  | September 30,<br>2007 | September 30,<br>2006 |
|--|-----------------------|-----------------------|
|  | -----                 | -----                 |
| Intrinsic value of options exercised       | \$ 12                 | \$ 1                  |
| Cash received from option exercises        | 42                    | 2                     |
| Tax benefit realized from option exercises | 16                    | 1                     |

The Company recorded \$72 and \$103 in salaries and employee benefits stock compensation expense during the nine months ended September 30, 2007 and 2006.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2007 and beyond is estimated as follows:

|                                | Amount |
|--------------------------------|--------|
|                                | -----  |
| October, 2007 - December, 2007 | \$ 28  |
| 2008                           | 74     |
| 2009                           | 74     |
| 2010                           | 74     |
| 2011                           | 61     |
| 2012                           | 11     |
|                                | -----  |
| Total                          | \$ 322 |
|                                | =====  |

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 reporting was enhanced so that a line of business (LOB) reporting structure was implemented as of January 1, 2005. The reportable segments are determined by the products and services offered, primarily distinguished between retail, commercial, treasury, wealth management, and operations & other. Loans, and deposits generate the revenues in the commercial segments; deposits, loans, secondary mortgage sales and servicing generates the revenue in the retail segment; investment income generates the revenue in the treasury segment;

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brokerage, and trust services generate the revenue in the wealth management segment (formerly known as the financial services segment); and holding company services and discontinued operations associated with the sale of the insurance unit generate revenue in the Other Operations segment. The "net allocations" line represents the allocation of the costs that are overhead being spread to the specific segments. With the sale of the insurance unit, the results for insurance were classified into the Other Operations segment from the Wealth Management segment.

During the quarter ended September 30, 2007, the Company completed the integration of its operations so that the results of the Company can be presented as follows: retail, commercial, treasury, wealth management and other operations. In the periods since the merger in November 2006, the former Centrue results had been shown as "other banking operations". These results are now incorporated in the segment data as appropriate.

10.

CENTRUE FINANCIAL CORPORATION  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (In Thousands, Except Per Share Data)

Note 7. Segment Information (continued)

The accounting policies used with respect to segment reporting are the same as those described in the summary of significant accounting policies set forth in Note 1. Segment performance is evaluated using net income. Information reported internally for performance assessment follows.

|                            | Three Months Ended |                    |                  |                   |                  |
|----------------------------|--------------------|--------------------|------------------|-------------------|------------------|
|                            | September 30, 2007 |                    |                  |                   |                  |
|                            | Retail Segment     | Commercial Segment | Treasury Segment | Wealth Management | Other Operations |
| Net interest income (loss) | \$ 3,080           | \$ 6,686           | \$ 496           | \$ (146)          | \$ ( )           |
| Other revenue              | 2,319              | 1,004              | -                | 664               | 3                |
| Other expense              | 2,361              | 605                | 50               | 485               | 3,8              |
| Noncash items              |                    |                    |                  |                   |                  |
| Depreciation               | 423                | 4                  | -                | 3                 | 3                |
| Provision for loan losses  | -                  | -                  | -                | -                 | -                |
| Other intangibles          | 560                | -                  | -                | 2                 | -                |
| Net allocations            | 1,144              | 2,169              | 819              | 6                 | (4,1             |
| Income tax expense         | 320                | 1,673              | (123)            | 7                 | 1                |
| Segment profit (loss)      | \$ 591             | \$ 3,239           | \$ (250)         | \$ 15             | \$ 2             |
| Goodwill                   | \$ 11,863          | \$ 12,339          | \$ -             | \$ 1,201          | \$               |
| Segment assets             | \$ 360,840         | \$ 710,319         | \$ 283,930       | \$ 1,573          | \$ 6,5           |

Three Months Ended

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September 30, 2006

|                            | Retail<br>Segment | Commercial<br>Segment | Treasury<br>Segment | Wealth<br>Management | Other<br>Operatio |
|----------------------------|-------------------|-----------------------|---------------------|----------------------|-------------------|
| Net interest income (loss) | \$ 1,909          | \$ 3,217              | \$ 126              | \$ 50                | \$ (2)            |
| Other revenue              | 883               | 126                   | -                   | 290                  |                   |
| Other expense              | 1,306             | 584                   | 61                  | 323                  | 2,1               |
| Noncash items              |                   |                       |                     |                      |                   |
| Depreciation               | 225               | 2                     | -                   | 17                   | 2                 |
| Provision for loan losses  | 300               | (500)                 | -                   | -                    |                   |
| Other intangibles          | -                 | -                     | -                   | 1                    |                   |
| Net allocations            | 740               | 1,193                 | 158                 | 214                  | (2,3              |
| Income tax expense         | 87                | 641                   | (101)               | (30)                 | (1                |
| Segment profit (loss)      | \$ 134            | \$ 1,423              | \$ 8                | \$ (185)             | \$ (1             |
| Goodwill                   | \$ 2,512          | \$ 2,631              | \$ -                | \$ 1,167             | \$                |
| Segment assets             | \$ 93,948         | \$ 329,836            | \$ 197,225          | \$ 2,132             | \$ 25,7           |

11.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

Note 7. Segment Information (continued)

|                            | Nine Months Ended  |                       |                     |                      |                   |
|----------------------------|--------------------|-----------------------|---------------------|----------------------|-------------------|
|                            | September 30, 2007 |                       |                     |                      |                   |
|                            | Retail<br>Segment  | Commercial<br>Segment | Treasury<br>Segment | Wealth<br>Management | Other<br>Operatio |
| Net interest income (loss) | \$ 11,005          | \$ 17,158             | \$ 1,340            | \$ (52)              | \$ (5             |
| Other revenue              | 7,494              | 1,848                 | (26)                | 1,453                | 1,0               |
| Other expense              | 8,727              | 2,283                 | 164                 | 1,283                | 11,8              |
| Noncash items              |                    |                       |                     |                      |                   |
| Depreciation               | 1,373              | 12                    | 1                   | 12                   | 9                 |
| Provision for loan losses  | 394                | (168)                 | -                   | -                    |                   |
| Other intangibles          | 1,769              | -                     | -                   | 5                    |                   |
| Net allocations            | 3,403              | 6,700                 | 2,678               | 15                   | (12,7             |
| Income tax expense         | 935                | 3,359                 | (654)               | 28                   | 1                 |
| Segment profit (loss)      | \$ 1,898           | \$ 6,820              | \$ (875)            | \$ 58                | \$ 3              |
| Goodwill                   | \$ 11,863          | \$ 12,339             | \$ -                | \$ 1,201             | \$                |
| Segment assets             | \$ 360,840         | \$ 710,319            | \$ 283,930          | \$ 1,573             | \$ 6,5            |

Nine Months Ended

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September 30, 2006

|                            | Retail<br>Segment | Commercial<br>Segment | Treasury<br>Segment | Wealth<br>Management | Other<br>Operatio |
|----------------------------|-------------------|-----------------------|---------------------|----------------------|-------------------|
| Net interest income (loss) | \$ 5,817          | \$ 9,606              | \$ 342              | \$ 159               | \$ (7             |
| Other revenue              | 2,641             | 347                   | (88)                | 876                  | 1,0               |
| Other expense              | 4,242             | 1,751                 | 192                 | 1,057                | 6,6               |
| Noncash items              |                   |                       |                     |                      |                   |
| Depreciation               | 668               | 8                     | -                   | 54                   | 6                 |
| Provision for loan losses  | 325               | (1,625)               | -                   | -                    |                   |
| Other intangibles          | -                 | -                     | -                   | 4                    | 1                 |
| Net allocations            | 2,211             | 3,662                 | 476                 | 680                  | (7,0              |
| Income tax expense         | 351               | 2,030                 | (353)               | (208)                | (                 |
| Segment profit (loss)      | \$ 661            | \$ 4,127              | \$ (61)             | \$ (552)             | \$                |
| Goodwill                   | \$ 2,512          | \$ 2,631              | \$ -                | \$ 1,167             | \$                |
| Segment assets             | \$ 93,948         | \$ 329,836            | \$ 197,225          | \$ 2,132             | \$ 25,7           |

Note 8. Discontinued Operations

During the third quarter of 2006, the Company sold the insurance unit from the Wealth Management segment for \$1,200. In accordance with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144") the results of operations of the insurance unit are reflected in the Company's statements of income for the three and nine months ended September 30, 2006 as "discontinued operations." Approximately \$1,030 of goodwill and intangibles attributed to the insurance unit on the Company's balance sheet were written off as a result of this transaction and factored into the loss on the sale of the discontinued operations.

12.

CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

Note 8. Discontinued Operations (continued)

|  | Three Months Ended<br>September 30, |          | Nine Months<br>September |    |
|--|-------------------------------------|----------|--------------------------|----|
|  | 2007                                | 2006     | 2007                     |    |
| Net interest income                            | \$ -                                | \$ -     | \$ -                     | \$ |
| Noninterest income                             | -                                   | (88)     | -                        |    |
| Noninterest expense                            | -                                   | 352      | -                        |    |
| Loss from discontinued operations before taxes | -                                   | (440)    | -                        |    |
| Income tax (benefit) for taxes                 | -                                   | (170)    | -                        |    |
| Net gain (loss) from discontinued operations   | \$ -                                | \$ (270) | \$ -                     | \$ |

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Note 9. Recent Accounting Developments

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment to FASB Statements No. 133 and 140". This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard is effective for financial assets acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Adoption of this statement on January 1, 2007 did not have a material impact on the Company's consolidated financial position or results of operations.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of the adoption of this standard.

In March 2006, the FASB issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140". This statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosure. This standard is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006, with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. We will continue to carry the mortgage servicing asset at lower of cost or market, reviewing it quarterly for impairment.

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CENTRUE FINANCIAL CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Per Share Data)

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### Note 9. Recent Accounting Developments (continued)

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting principles. It is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. The Company has decided not to early adopt SFAS 159 and is currently evaluating the impact of the adoption with respect to its current practice of measuring fair value and disclosure of it in its financial statements.

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB No. 109" ("FIN 48") as of January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to follow. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no benefit is recorded. The adoption had no effect on the Company's financial statements.

The Company is subject to U. S. federal income tax as well as income tax for the states of Illinois and Missouri. The Company is no longer subject to examination by taxing authorities for years before 2002. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at September 30, 2007.

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14.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)

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Centrue Financial Corporation (the "Company") is a bank holding company for Centrue Bank. During the fourth quarter of 2006, the former UnionBancorp completed its merger with Centrue Financial Corporation with UnionBancorp being the surviving entity in this merger. Upon completion of the merger, UnionBancorp changed its name to Centrue Financial Corporation. The following discussion provides an analysis of the Company's results of operations and financial condition for the three and nine months ended September 30, 2007 as compared to

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the same period in 2006. 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. Actual results could differ from those estimates. Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

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, 2006. The annualized results of operations during the three and nine months ended September 30, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007. All financial information is in thousands (000s), except shares and per share data.

### Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 2006 Annual Report on Form 10-K.

**Allowance for Loan Losses:** The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, current economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

**Goodwill and other intangible assets:** Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank, and branch company acquisitions. They are initially measured at fair value and then are amortized over their estimated useful lives, which is ten years.

**Income taxes:** Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax laws. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur.

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CENTRUE FINANCIAL CORPORATION

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

(In Thousands, Except Per Share Data)

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### General

Centrue Financial Corporation is a bank holding company organized under the laws of the state of Delaware. The Company derives most of its revenues and income from the operations of its bank subsidiary, Centrue Bank (the "Bank"), but also derives revenue from the Wealth Management Division of its bank subsidiary. The Company provides a full range of services to individual and corporate customers located in markets to the west and south of suburban Chicago, as well as in east central and northwest Illinois, and in the St. Louis metropolitan area. These products and services include demand, time, and savings deposits; lending; mortgage banking; brokerage services; asset management; and trust services. The Company is subject to competition from other financial institutions, including banks, thrifts and credits unions, as well as 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.

### Third Quarter 2007 Highlights:

- o Third quarter 2007 results included the following nonrecurring items:
  - o Net gain on sale of \$459 realized from properties held in other real estate.
  - o Net fees of \$132 generated from one U.S. Internal Revenue Code Section 1031 exchange brokerage transaction.
  - o The impact to earnings after taxes related to these items was approximately \$362 or \$0.06 per diluted share.
- o In order to integrate operations and streamline our retail distribution channel, the Company closed its Urbana, Illinois location at the end of August. This action, in addition to the closing of the Company's Dwight In-Store and Coal City In-Store branches earlier in the year, will reduce the branch distribution network from 36 to 33 locations.
- o With a successful core systems conversion late in the second quarter, the Company was able to complete its integration process which contributed to the realization of a net reduction of over 100 full-time equivalent employees as of September 30, 2007 as compared to pro-forma staffing levels at the beginning of 2006.

### Results of Operations

#### Net Income

Income from continuing operations for the third quarter ended September 30, 2007 equaled \$3,838 or \$0.60 per diluted share as compared to \$1,506 or \$0.38 per diluted share in the same period of 2006. This represents increases of 154.8% in net income and 57.9% in diluted per share earnings. For the nine months ended September 30, 2007, net income from continuing operations equaled \$8,243 or \$1.26 per diluted share compared to \$4,503 or \$1.14 per diluted share in the same period during 2006. This represents increases of 83.1% in net income and

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10.5% in diluted per share earnings. Results for the three months and nine months ended September 30, 2007 include the impact from the merger of Centrue Financial Corporation and UnionBancorp, Inc. that occurred in November 2006.

Return on average assets was 1.13% for the third quarter of 2007 compared to 0.76% for the same period in 2006. Return on average assets was 0.83% for the nine month period ended September 30, 2007 compared to 0.85% for the same period in 2006.

Return on average stockholders' equity was 12.78% for the third quarter of 2007 compared to 7.32% for the same period in 2006. Return on average stockholder's equity was 9.29% for the nine month period ended September 30, 2007 compared to 8.43% for the same period in 2006.

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16.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)

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### 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 three months ended September 30, 2007 increased 98.1% to \$10,315 as compared \$5,206 for the same period in 2006. The improvement in net interest income was largely related to an increase in earning assets due to the addition of the former Centrue's loan and investment portfolios. This was offset by increases in deposit balances and a shift in the mix of interest bearing liabilities from lower costing non-maturing deposits (checking, NOW, savings, money market) to higher costing time deposits and other wholesale funds.

The net interest margin, on a tax equivalent basis, decreased 9 basis points to 3.40% as compared to the same period in 2006 and increased 10 basis points from the second quarter of 2007. The primary drivers for the decrease were compressed loan spreads, heightened competition for deposits and fixed rate term loans that were repriced at similar or lower rates during the last twelve months in a flat to inverted yield curve environment. Competitive pressures in pricing loans and deposits are likely to maintain pressure on the margin throughout 2007.

Fully tax equivalent net interest income for the nine months ended September 30, 2007 increased 89.9% to \$29,628 as compared \$15,602 for the same period in 2006. Net interest income increased largely due to the factors described above impacting the third quarter results.

17.

CENTRUE FINANCIAL CORPORATION  
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
 RESULTS OF OPERATIONS  
 (In Thousands, Except Per Share Data)

AVERAGE BALANCE SHEET  
 AND ANALYSIS OF NET INTEREST INCOME

|                                      | For the Three Months Ended September 30, |                                |                 |                    |                                |
|--------------------------------------|--|--------------------------------|-----------------|--------------------|--------------------------------|
|                                      | 2007                                     |                                |                 | 2006               |                                |
|                                      | Average<br>Balance                       | Interest<br>Income/<br>Expense | Average<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense |
| <b>ASSETS</b>                        |  |                                |                 |                    |                                |
| Interest-earning assets              |  |                                |                 |                    |                                |
| Interest-earning deposits            | \$ 751                                   | \$ 6                           | 3.11%           | \$ 177             | \$ 4                           |
| Securities                           |  |                                |                 |                    |                                |
| Taxable                              | 232,740                                  | 3,084                          | 5.26            | 163,762            | 2,066                          |
| Non-taxable                          | 40,830                                   | 560                            | 5.44            | 19,123             | 330                            |
| Total securities<br>(tax equivalent) | 273,570                                  | 3,644                          | 5.28            | 182,885            | 2,396                          |
| Federal funds sold                   | 8,140                                    | 106                            | 5.16            | 5,678              | 71                             |
| Loans                                |  |                                |                 |                    |                                |
| Commercial                           | 173,798                                  | 3,571                          | 8.15            | 108,754            | 2,067                          |
| Real estate                          | 737,008                                  | 14,242                         | 7.66            | 285,091            | 5,184                          |
| Installment and other                | 10,801                                   | 223                            | 8.20            | 9,009              | 212                            |
| Gross loans (tax equivalent)         | 921,608                                  | 18,036                         | 7.76            | 402,854            | 7,463                          |
| Total interest-earnings<br>assets    | 1,204,067                                | 21,792                         | 7.18            | 591,594            | 9,934                          |
| Noninterest-earning assets           |  |                                |                 |                    |                                |
| Cash and cash equivalents            | 34,749                                   |                                |                 | 17,226             |                                |
| Premises and equipment, net          | 35,978                                   |                                |                 | 13,730             |                                |
| Other assets                         | 73,592                                   |                                |                 | 25,777             |                                |
| Total nonearning assets              | 144,319                                  |                                |                 | 56,733             |                                |

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|   |              |           |       |            |          |
|---|--------------|-----------|-------|------------|----------|
| Total assets  | \$ 1,348,387 |           |       | \$ 648,327 |          |
|   | =====        |           |       | =====      |          |
| LIABILITIES & STOCKHOLDERS' EQUITY                              |              |           |       |            |          |
| Interest-bearing liabilities                                    |              |           |       |            |          |
| NOW accounts  | \$ 107,173   | \$ 409    | 1.51  | \$ 69,124  | \$ 332   |
| Money market accounts   | 123,762      | 1,230     | 3.94  | 53,283     | 397      |
| Savings deposits  | 94,065       | 153       | 0.65  | 34,657     | 65       |
| Time deposits   | 636,757      | 7,942     | 4.95  | 307,100    | 3,334    |
| Federal funds purchased and<br>repurchase agreements            | 48,494       | 536       | 4.39  | 5,317      | 69       |
| Advances from FHLB  | 57,792       | 636       | 4.37  | 38,820     | 363      |
| Notes payable   | 32,714       | 571       | 6.92  | 9,489      | 168      |
|   | -----        | -----     | ----- | -----      | -----    |
| Total interest-bearing<br>liabilities                           | 1,100,757    | 11,477    | 4.14  | 517,790    | 4,728    |
|   | -----        | -----     | ----- | -----      | -----    |
| Noninterest-bearing liabilities                                 |              |           |       |            |          |
| Noninterest-bearing deposits                                    | 116,704      |           |       | 58,554     |          |
| Other liabilities   | 11,805       |           |       | 4,944      |          |
|   | -----        |           |       | -----      |          |
| Total noninterest-bearing<br>liabilities                        | 128,509      |           |       | 63,498     |          |
|   | -----        |           |       | -----      |          |
| Stockholders' equity  | 119,121      |           |       | 67,039     |          |
|   | -----        |           |       | -----      |          |
| Total liabilities and stockholders'<br>equity                   | \$ 1,348,387 |           |       | \$ 648,327 |          |
|   | =====        |           |       | =====      |          |
| Net interest income (tax equivalent)                            |              | \$ 10,315 |       |            | \$ 5,206 |
|   |              | =====     |       |            | =====    |
| Net interest income (tax equivalent)<br>to total earning assets |              |           | 3.40% |            |          |
|   |              |           | ===== |            |          |
| Interest-bearing liabilities to<br>earning assets               |              | 91.23%    |       |            | 87.52%   |
|   |              | =====     |       |            | =====    |

- (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.

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18.

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### RESULTS OF OPERATIONS

(In Thousands, Except Per Share Data)

#### AVERAGE BALANCE SHEET AND ANALYSIS OF NET INTEREST INCOME

|   | For the Nine Months Ended September 30, |                                |                 |                    |                                |
|---|---|--------------------------------|-----------------|--------------------|--------------------------------|
|   | 2007                                    |                                |                 | 2006               |                                |
|   | Average<br>Balance                      | Interest<br>Income/<br>Expense | Average<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense |
| <b>ASSETS</b>                                 |   |                                |                 |                    |                                |
| Interest-earning assets                       |   |                                |                 |                    |                                |
| Interest-earning deposits                     | \$ 2,339                                | \$ 27                          | 1.56%           | \$ 213             | \$ 11                          |
| Securities                                    |   |                                |                 |                    |                                |
| Taxable                                       | 243,102                                 | 9,584                          | 5.27            | 173,367            | 6,083                          |
| Non-taxable                                   | 40,936                                  | 1,687                          | 5.51            | 18,493             | 976                            |
| Total securities<br>(tax equivalent)          | 284,038                                 | 11,271                         | 5.31            | 191,860            | 7,059                          |
| Federal funds sold                            | 9,048                                   | 353                            | 5.22            | 3,415              | 130                            |
| Loans   |   |                                |                 |                    |                                |
| Commercial                                    | 177,030                                 | 10,830                         | 8.18            | 112,906            | 6,109                          |
| Real estate                                   | 698,895                                 | 39,535                         | 7.56            | 284,636            | 15,004                         |
| Installment and other                         | 11,553                                  | 741                            | 8.57            | 10,442             | 738                            |
| Gross loans (tax equivalent)                  | 887,478                                 | 51,106                         | 7.70            | 407,984            | 21,851                         |
| Total interest-earnings<br>assets             | 1,182,903                               | 62,757                         | 7.09            | 603,472            | 29,051                         |
| Noninterest-earning assets                    |   |                                |                 |                    |                                |
| Cash and cash equivalents                     | 31,618                                  |                                |                 | 17,823             |                                |
| Premises and equipment, net                   | 35,739                                  |                                |                 | 13,770             |                                |
| Other assets                                  | 74,181                                  |                                |                 | 24,350             |                                |
| Total nonearning assets                       | 141,538                                 |                                |                 | 55,943             |                                |
| Total assets                                  | \$ 1,324,441                            |                                |                 | \$ 659,415         |                                |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b> |   |                                |                 |                    |                                |
| Interest-bearing liabilities                  |   |                                |                 |                    |                                |
| NOW accounts                                  | \$ 105,151                              | \$ 1,305                       | 1.66            | \$ 69,507          | \$ 928                         |

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|   |              |           |       |            |           |
|---|--------------|-----------|-------|------------|-----------|
| Money market accounts   | 120,846      | 3,347     | 3.70  | 53,960     | 1,106     |
| Savings deposits  | 99,352       | 507       | 0.68  | 36,734     | 187       |
| Time deposits   | 613,642      | 22,835    | 4.98  | 308,021    | 9,231     |
| Federal funds purchased and<br>repurchase agreements            | 41,898       | 1,409     | 4.50  | 5,092      | 192       |
| Advances from FHLB  | 58,905       | 1,909     | 4.33  | 45,307     | 1,300     |
| Notes payable   | 31,841       | 1,817     | 7.63  | 10,070     | 505       |
|   | -----        | -----     | ----- | -----      | -----     |
| Total interest-bearing<br>liabilities                           | 1,071,635    | 33,129    | 4.13  | 528,691    | 13,449    |
|   | -----        | -----     | ----- | -----      | -----     |
| Noninterest-bearing liabilities                                 |              |           |       |            |           |
| Noninterest-bearing deposits                                    | 122,957      |           |       | 59,969     |           |
| Other liabilities   | 11,277       |           |       | 4,648      |           |
|   | -----        |           |       | -----      |           |
| Total noninterest-bearing<br>liabilities                        | 134,234      |           |       | 64,617     |           |
|   | -----        |           |       | -----      |           |
| Stockholders' equity  | 118,572      |           |       | 66,107     |           |
|   | -----        |           |       | -----      |           |
| Total liabilities and<br>stockholders' equity                   | \$ 1,324,441 |           |       | \$ 659,415 |           |
|   | =====        |           |       | =====      |           |
| Net interest income (tax equivalent)                            |              | \$ 29,628 |       |            | \$ 15,602 |
|   |              | =====     |       |            | =====     |
| Net interest income (tax equivalent)<br>to total earning assets |              |           | 3.35% |            |           |
|   |              |           | ===== |            |           |
| Interest-bearing liabilities to<br>earning assets               |              | 90.45%    |       | 87.61%     |           |
|   |              | =====     |       | =====      |           |

- (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 balances; Overdraft loans are excluded in the balances.
- (4) Loan fees are included in the specific loan category.

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19.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(In Thousands, Except Per 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,

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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.

During the third quarter of 2007, the Company made no provision to the allowance for loan losses as compared to reporting a negative provision of (\$200) in the 2006 period. For the nine months ended September 30, 2007, the Company recorded a \$226 provision for loan losses as compared to recognizing a negative provision of (\$1,300) in the 2006 period. Results for 2006 included negative provisions largely due to the pay-off of one \$4,400 loan relationship that was classified as impaired in late 2005 with a specific reserve allocation of \$1,500.

The following factors have impacted 2007 provision levels:

- o decrease in nonperforming and action list loans since year-end;
- o improvement in the level of past due loans;
- o higher than anticipated recoveries; and
- o loans that were charged off during the first nine months of 2007 had previously been allocated a specific reserve.

Net charge-offs for the third quarter of 2007 were \$(24) compared with \$545 for the comparable period in 2006. Annualized net charge-offs for the period were 0.00% of average loans compared with 0.14% of average loans for same period in 2006. Net charge-offs for the nine months ended September 30, 2007 were \$209 compared with \$959 for the comparable period in 2006. Annualized net charge-offs for the period were 0.02% of average loans compared with 0.23% of average loans for same period in 2006.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision. See "Nonperforming Assets" and "Other Potential Problem Loans" for further information.

-----  
20.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)  
-----

Noninterest Income

The following table summarizes the Company's noninterest income:

| Three Months Ended<br>September 30, |       |
|-------------------------------------|-------|
| 2007                                | 2006  |
| -----                               | ----- |
| -----                               | ----- |

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|   |          |          |
|---|----------|----------|
| Service charges                                     | 1,725    | 476      |
| Trust income  | 243      | 202      |
| Mortgage banking income                             | 399      | 240      |
| Brokerage commissions and fees                      | 416      | 87       |
| Bank owned life insurance (BOLI)                    | 252      | 153      |
| Securities gains (losses), net                      | -        | -        |
| Gain (loss) on sale of Oreo                         | 459      | -        |
| Other income  | 873      | 323      |
|   | -----    | -----    |
| Total noninterest income from continuing operations | \$ 4,367 | \$ 1,481 |
|   | =====    | =====    |

Noninterest income from continuing operations totaled \$4,367 for the three months ended September 30, 2007, compared to \$1,481 for the same period in 2006. Excluding \$459 in net gain on sale of OREO properties from the third quarter of 2007 and \$315 in gross fees generated from one U.S. Internal Revenue Code Section 1031 exchange brokerage transaction, noninterest income increased \$2,112 or 142.6% during the third quarter of 2007 as compared to the same period in 2006. The growth experienced was primarily the result of improvements in service charges on deposit accounts, NSF fees and revenue generated from the mortgage banking division as a result of the November 2006 merger.

Noninterest income from continuing operations totaled \$11,815 for the nine months ended September 30, 2007, compared to \$4,325 for the same time frame in 2006. Excluding all net gains on sale of assets and net securities losses for both periods, noninterest income increased \$6,128 or 141.7%. The change was largely reflective of the same items discussed regarding the third quarter.

-----  
21.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)  
-----

Noninterest Expense

|                                   | Three Months Ended<br>September 30, |          |
|-----------------------------------|-------------------------------------|----------|
|                                   | 2007                                | 2006     |
|                                   | -----                               | -----    |
| Salaries and employee benefits    | \$ 3,891                            | \$ 2,630 |
| Occupancy expense, net            | 1,028                               | 356      |
| Furniture and equipment expense   | 616                                 | 515      |
| Marketing                         | 325                                 | 88       |
| Supplies and printing             | 137                                 | 71       |
| Telephone                         | 198                                 | 104      |
| Amortization of intangible assets | 562                                 | 11       |
| Other expenses                    | 1,874                               | 816      |
|                                   | -----                               | -----    |

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|  |    |       |    |       |       |
|--|----|-------|----|-------|-------|
| Total noninterest expense from continuing operations | \$ | 8,631 | \$ | 4,591 | \$    |
|  |    | ===== |    | ===== | ===== |

Noninterest expense from continuing operations totaled \$8,631 for the three months ended September 30, 2007, compared to \$4,591 for the same period in 2006. The increase was reported across all categories and predominantly due to higher costs associated with operating 21 additional branches resulting from the November 2006 merger. Also adversely impacting expense levels were core deposit amortization, accelerated depreciation expense for assets being phased out and restructuring related expenses. As compared to the second quarter 2007, noninterest expense levels declined 12.3% primarily due to completion of integration activities which reduced operating costs and full-time equivalent employees.

Noninterest expense for continuing operations totaled \$28,425 for the nine months ended September 30, 2007, increasing by \$14,074 or 98.1% from the same period in 2006. The change was largely reflective of the same items discussed regarding the third quarter.

Applicable Income Taxes

Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The following table shows the Company's income before income taxes, as well as applicable income taxes and the effective tax rate for the three and nine months ended September 30, 2007 and 2006.

|                                   | Three Months Ended<br>September 30, |          |
|-----------------------------------|-------------------------------------|----------|
|                                   | 2007                                | 2006     |
| Income from continuing operations |                                     |          |
| before income taxes               | \$ 5,820                            | \$ 2,164 |
| Applicable income taxes           | 1,982                               | 658      |
| Effective tax rates               | 34.1%                               | 30.4%    |

The Company recorded an income tax expense of \$1,982 and \$658 for the three months ended September 30, 2007 and 2006, respectively. Effective tax rates equaled 34.1% and 30.4% respectively, for such periods. The Company recorded income tax expense of \$3,819 and \$1,983 for the nine months ended September 30, 2007 and 2006, respectively. Effective tax rates equaled 31.7% and 30.6% respectively, for such periods.

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 Company's effective tax rate was lower than statutory rates due to the Company deriving interest income from municipal securities and loans, which are exempt from federal tax and certain U. S. government agency securities, which are exempt from Illinois State tax. Additionally, the Company has reduced tax expense through various tax planning initiatives.

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CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)

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### Financial Condition

#### General

As of September 30, 2007, the following are the highlights of the balance sheet when compared to December 31, 2006:

- o Outstanding loans totaled \$933,903 at September 30, 2007 compared to \$836,944 at December 31, 2006, representing an increase of \$96,959 or 11.6%. The loan growth was largely generated in the St. Louis market and concentrated in commercial real estate lending activity. The Company has no direct exposure to subprime mortgages.
- o Deposits totaled \$1,063,805 at September 30, 2007 compared to \$1,026,610 at December 31, 2006, representing an increase of \$37,195 or 3.6%. The majority of the increase was concentrated in higher costing time and wholesale deposits representing a shift from lower costing non-maturing deposits.

#### Nonperforming Assets

If a loan is placed on nonaccrual status, the loan does not generate current period income for the Company. 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. Amounts received on nonaccrual loans generally are applied first to principal and then to interest after all principal has been collected. 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. Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

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. The Bank 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 loans is assigned a rating based upon an internally developed grading system. A separate credit administration department also reviews grade assignments on an ongoing basis. Management continuously monitors nonperforming, impaired and past due loans to prevent further deterioration of these loans. The Company has an independent loan review function which is separate from the lending function and is responsible for the review of new and existing loans.

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

2007

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|  | Sep 30,   | Jun 30,   | Mar 31,   |
|--|-----------|-----------|-----------|
| Nonaccrual loans                                   | \$ 5,573  | \$ 4,492  | \$ 9,416  |
| Loans 90 days past due and still accruing interest | -         | -         | -         |
| Total nonperforming loans                          | 5,573     | 4,492     | 9,416     |
| Other real estate owned                            | 4,620     | 6,568     | 4,262     |
| Total nonperforming assets                         | \$ 10,193 | \$ 11,060 | \$ 13,678 |
| Nonperforming loans to total end of period loans   | 0.60%     | 0.49%     | 1.08%     |
| Nonperforming assets to total end of period loans  | 1.09%     | 1.21%     | 1.57%     |
| Nonperforming assets to total end of period assets | 0.75%     | 0.81%     | 1.04%     |

The level of nonperforming loans at September 30, 2007 decreased 52.6% to \$5,573 compared to \$11,759 that was reported at December 31, 2006. The decrease in nonperforming loans from December 31, 2006 to September, 30, 2007 was largely related to the completion of work out plans previously in place. Some of the

23.

CENTRUE FINANCIAL CORPORATION  
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
 RESULTS OF OPERATIONS  
 (In Thousands, Except Per Share Data)

work out plans for nonperforming real estate loans resulted in the Company obtaining ownership of the collateral securing the loans and are reflected in a \$2,484 increase in other real estate owned.

The level of nonperforming loans to total end of period loans was 0.60% at September 30, 2007, as compared to 1.40% at December 31, 2006. The reserve coverage ratio (allowance to nonperforming loans) was reported at 194.72% as of September 30, 2007 as compared to 92.14% as of December 31, 2006.

Other Potential Problem Loans

The Company has other potential problem loans that are currently performing, but where some concerns exist as to the ability of the borrower to comply with present loan repayment terms. Excluding nonperforming loans and loans that management has classified as impaired, these other potential problem loans totaled \$963 at September 30, 2007 as compared to \$3,785 at September 30, 2006 and \$1,757 at December 31, 2006. 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 close 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 September 30, 2007, the allowance for loan losses was \$10,852 or 1.16% of total loans as compared to \$10,835 or 1.29% at December 31, 2006. In originating

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loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, the following:

- o general economic conditions;
- o the type of loan being made;
- o the creditworthiness of the borrower over the term of the loan;
- o in the case of a collateralized loan, the quality of the collateral for such a loan.

The allowance for loan losses represents the Company's estimate of the allowance necessary to provide for probable incurred losses in the loan portfolio by analyzing the following:

- o ultimate collectibility of the loans in its portfolio;
- o incorporating feedback provided by internal loan staff;
- o the independent loan review function;
- o results of examinations performed by regulatory agencies.

The Company regularly evaluates the adequacy of the allowance for loan losses. Commercial credits are graded using a system that is in compliance with regulatory classifications by the loan officers and the loan review function validates the officers' grades. In the event that the loan review function downgrades the loan, it is included in the allowance analysis at the lower grade. To establish the appropriate level of the allowance, a sample of loans (including impaired and nonperforming loans) are reviewed and classified as to potential loss exposure.

Based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board ("FASB") Statement No. 5, "Accounting for Contingencies," and FASB Statements Nos. 114 and 118, "Accounting by Creditors for Impairment of a Loan," the analysis of the allowance for loan losses consists of three components:

- o specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value;

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24.

CENTRUE FINANCIAL CORPORATION  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In Thousands, Except Per Share Data)

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- o general portfolio allocation based on historical loan loss experience for each loan category;
- o subjective reserves based on general economic conditions as well as specific economic factors in the markets in which the Company operates.

The specific credit allocation component of the allowance for loan losses is based on a regular analysis of loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. 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.

The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss migration analysis that examines historical loan loss experience. The loss migration analysis 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 allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed monthly, and as adjustments, either positive or negative, become necessary, a corresponding increase or decrease is made in the provision for loan losses. The methodology used to determine the adequacy of the allowance for loan losses is consistent with prior years.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

#### Liquidity

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

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

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

The Company's cash flows are comprised of three classifications: cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Cash flows provided by operating activities and financing activities offset by those used in investing activities, resulted in a net increase in cash and cash equivalents of \$14,813 from December 31, 2006 to September 30, 2007.

During the first nine months of 2007, the Company experienced net cash inflows of \$67,654 in financing activities primarily due to an increase in deposits and \$10,795 in operating activities. In contrast, net cash outflows of \$63,636 were used in investing activities largely due to the net growth in loans.

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CENTRUE FINANCIAL CORPORATION

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

(In Thousands, Except Per Share Data)

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

The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company's contractual cash obligations and other commitments and off balance sheet instruments as of September 30, 2007.

|   | Payments Due by Period |             |             |                  |
|---|------------------------|-------------|-------------|------------------|
|   | Within 1<br>Year       | 1 - 3 Years | 4 - 5 Years | After<br>5 Years |
| <b>Contractual Obligations</b>                |                        |             |             |                  |
| Short-term debt                               | \$ 11,454              | \$ -        | \$ -        | \$ -             |
| Long-term debt                                | -                      | 514         | 343         | -                |
| Certificates of deposit                       | 510,896                | 109,303     | 6,440       | 1,000            |
| Operating leases                              | 410                    | 849         | 893         | 4,000            |
| Severance payments                            | 236                    | -           | -           | -                |
| Series B mandatory redeemable preferred stock | -                      | 831         | -           | -                |
| Subordinated debentures                       | -                      | -           | -           | 20,600           |
| FHLB advances                                 | 62,400                 | 10,200      | 3,000       | 5,100            |
|   | -----                  | -----       | -----       | -----            |
| Total contractual cash obligations            | \$ 585,396             | \$ 121,697  | \$ 10,676   | \$ 27,300        |
|   | =====                  | =====       | =====       | =====            |

|  | Amount of Commitment Expiration Per Period |             |             |                  |
|--|--|-------------|-------------|------------------|
|  | Within 1<br>Year                           | 1 - 3 Years | 4 - 5 Years | After<br>5 Years |
| <b>Off-Balance Sheet Financial Instruments</b> |  |             |             |                  |
| Lines of credit                                | \$ 117,046                                 | \$ 56,797   | \$ 7,160    | \$ 14,700        |
| Standby letters of credit                      | 8,919                                      | 447         | -           | -                |
|  | -----                                      | -----       | -----       | -----            |
| Total contractual cash obligations             | \$ 125,965                                 | \$ 57,244   | \$ 7,160    | \$ 14,800        |
|  | =====                                      | =====       | =====       | =====            |

Capital Resources

Stockholders' Equity

The Company is committed to managing capital for maximum shareholder benefit and

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maintaining strong protection for depositors and creditors. Stockholders' equity at September 30, 2007 was \$120,234, an increase of \$2,043 or 1.7%, from December 31, 2006. The increase in stockholders' equity was largely the result of the net income for the period partially offset by dividends paid to common stockholders and an increase in treasury stock related to repurchase activity. Average quarterly equity as a percentage of average quarterly assets was 8.83% at September 30, 2007, compared to 10.35% at December 31, 2006. Book value per common share equaled \$19.12 at September 30, 2007 compared to \$18.23 at December 31, 2006.

### Stock Repurchase

On November 13, 2006, the Board of Directors approved a stock repurchase plan whereby the Company may repurchase from time to time up to 5% or 370,000 of its outstanding shares of common stock in the open market or in private transactions over an 18 month period. Purchases are dependent upon market conditions and the availability of shares. The repurchase program enables the Company to optimize its use of capital relative to other investment alternatives and benefits both the Company and the shareholders by enhancing earnings per share and return on equity. During the third quarter of 2007, 104,794 shares were repurchased at a weighted cost of \$19.84.

On July 24, 2007 the Centrue Financial Corporation Board of Directors approved an extension of the Company's existing stock repurchase program. Specifically, the board approved the repurchase of an additional 500,000 shares, or approximately 8% of the Company's currently issued and outstanding shares, in

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26.

### CENTRUE FINANCIAL CORPORATION

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

(In Thousands, Except Per Share Data)  
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the open market or privately negotiated transactions over an 18 month period commencing immediately following the completion of the current stock repurchase program.

### Capital Measurements

The Bank is expected to meet a minimum risk-based capital to risk-weighted assets ratio of 8%, of which at least one-half (or 4%) must be in the form of Tier 1 (core) capital. The remaining one-half (or 4%) may be in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowance that may be included in capital is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Company was 10.0% and 11.1%, respectively, at September 30, 2007. The Company is currently, and expects to continue to be, in compliance with these guidelines.

The following table sets forth an analysis of the Company's capital ratios:

|  |         | December 31, |       | Minimum |
|--|---------|--------------|-------|---------|
|  | Sep 30, | -----        |       | Capital |
|  | 2007    | 2006         | 2005  | Ratios  |
|  | -----   | -----        | ----- | -----   |

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|                           |                  |                |                |
|---------------------------|------------------|----------------|----------------|
| Tier 1 risk-based capital | \$ 103,508       | \$ 99,869      | \$ 60,546      |
| Tier 2 risk-based capital | 10,852           | 10,834         | 6,266          |
|                           | -----            | -----          | -----          |
| <br>Total capital         | <br>\$ 114,360   | <br>\$ 110,703 | <br>\$ 66,812  |
|                           | =====            | =====          | =====          |
| <br>Risk-weighted assets  | <br>\$ 1,034,134 | <br>\$ 927,043 | <br>\$ 501,342 |
|                           | =====            | =====          | =====          |
| <br>Capital ratios:       |                  |                |                |
| Tier 1 risk-based capital | 10.0%            | 10.8%          | 12.1%          |
| Total risk-based capital  | 11.1%            | 11.9%          | 13.3%          |
| Leverage ratio            | 7.8%             | 7.9%           | 9.0%           |

### Recent Regulatory and Accounting Developments

See Note 9 to the Unaudited Consolidated Financial Statements for information concerning recent regulatory and accounting developments.

### 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.

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27.

### CENTRUE FINANCIAL CORPORATION ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK (In Thousands, Except Per Share Data)

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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:

- o 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;
- o fluctuations in the value of the Company's investment securities;
- o the Company's ability to ultimately collect on any downgraded long-standing loan relationships;

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- o the Company's ability to adapt successfully to technological changes to compete effectively in the marketplace;
- o credit risks and risks from concentrations (by geographic area and by industry) within the Company's loan portfolio and individual large loans;
- o volatility of rate sensitive deposits;
- o operational risks, including data processing system failures or fraud;
- o asset/liability matching risks and liquidity risks;
- o the ability to successfully acquire low cost deposits or funding;
- o the ability to successfully execute strategies to increase noninterest income;
- o the ability to successfully grow non-commercial real estate loans;
- o the ability of the Company to fully realize expected cost savings and revenue generation opportunities in connection with the synergies of merging with the former Centrue Bank;
- o the ability to adopt and implement new regulatory requirements as dictated by the SEC, FASB or other rule-making bodies which govern our industry;
- o changes in the general economic or industry conditions, nationally or in the communities in which the Company conducts business.

### 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 100 to 200 basis point increase in market interest rates or a 100 to 200 basis point decrease in market rates. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements. The tables below present the Company's projected changes in net interest income for the various rate shock levels at September 30, 2007 and December 31, 2006, respectively:

|          | Change in Net Interest Income Over One Year Horizon |        |                   |         |
|----------|---|--------|-------------------|---------|
|          | September 30, 2007                                  |        | December 31, 2006 |         |
|          | Change  |        | Change            |         |
|          | \$  | %      | \$                | %       |
| + 200 bp | \$ 518  | 1.26%  | \$ 2,215          | 5.49%   |
| + 100 bp | 376   | 0.92   | 1,157             | 2.87    |
| Base     | -   | -      | -                 | -       |
| - 100 bp | (1,585)   | (3.86) | (1,529)           | (3.79)  |
| - 200 bp | (4,042)   | (9.84) | (4,345)           | (10.77) |

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CENTRUE FINANCIAL CORPORATION  
 ITEM 4. CONTROLS AND PROCEDURES  
 (In Thousands, Except Per Share Data)

As shown above, the Company's model at September 30, 2007, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by \$518 or 1.26%. The effect of an immediate 200 basis point decrease in rates would decrease the Company's net interest income by \$4,042 or 9.84%.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates and should not be relied upon as indicative of actual results. Actual values may differ from those projections set forth above, should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate actions the Company may undertake in response to changes in interest rates.

#### 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.

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## 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

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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, 2006.

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

The following table provides information about purchases of the Company's common stock by the Company during the quarter ended September 30, 2007.

| Period     | Total Number of<br>Shares Purchased | Average Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | Maximum Num<br>Shares that<br>Be Purchased<br>the Plans or |
|------------|-------------------------------------|---------------------------------|--|--|
| -----      | -----                               | -----                           | -----  | -----  |
| 07/01/07 - | -                                   | -                               | -  | -  |
| 07/31/07   |                                     |                                 |  |  |
| 08/01/07 - | 82,194                              | \$19.81                         | 82,194   |  |
| 08/31/07   |                                     |                                 |  |  |
| 09/01/07 - | 22,600                              | \$19.92                         | 22,600   |  |
| 09/30/07   |                                     |                                 |  |  |
| Total (1)  | 104,794                             | \$19.84                         | 104,794  |  |

- (1) The Company repurchased 104,794 shares at an average price per share of \$19.84 of our common stock during the quarter ended September 30, 2007 pursuant to the Company's current repurchase program. The current repurchase program approved on November 12, 2006 authorized us to repurchase 370,000 of the outstanding shares of our common stock. The expiration date of this program is May 13, 2008. On July 24, 2007 the Centrue Financial Corporation Board of Directors approved an extension of the Company's existing stock repurchase program. Specifically, the board approved the repurchase of an additional 500,000 shares, or approximately 8% of the Company's currently issued and outstanding shares, in the open market or privately negotiated transactions over an 18 month period commencing immediately following the completion of the current stock repurchase program. The expiration date of this program is January 24, 2009. Unless terminated earlier by resolution of our board of directors, the programs will expire on the earlier of such expiration date or when we have repurchased all shares authorized for repurchase under the program.

### Item 3. Defaults Upon Senior Securities

None.

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### Item 4. Submission of Matters to a Vote of Security Holders

None

### Item 5. Other Information

None

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Item 6. Exhibits

Exhibits:

- 3.1 Bylaws
- 10.1 Employment agreement with Donald M. Davis, Market President - St. Louis Region
- 31.1 Certification of Thomas A. Daiber, President and Principal Executive Officer, required by Rule 13a - 14(a).
- 31.2 Certification of Kurt R. Stevenson, Senior Executive Vice President and Principal Financial and Accounting Officer required by Rule 13a - 14(a).
- 32.1(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's President and Principal Executive Officer.
- 32.2(1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's Senior Executive Vice President and Principal Financial and Accounting Officer.

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(1) This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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SIGNATURES

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

CENTRUE FINANCIAL CORPORATION

Date: November 13, 2007

By: /s/ Thomas A. Daiber

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Thomas A. Daiber  
President and Principal Executive  
Officer

Date: November 13, 2007

By: /s/ Kurt R. Stevenson

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Kurt R. Stevenson  
Senior Executive Vice President and  
Principal Financial and Accounting  
Officer

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32.