

CENTRUE FINANCIAL CORP  
Form 10-K  
March 25, 2011

Securities And Exchange Commission

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010  
Commission File Number: 0-28846

Centrue Financial Corporation  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-3145350  
(I.R.S. Employer Identification  
Number)

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

(314) 505-5500  
(Registrant's telephone number, including area code)

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

Title of Exchange Class	Name of Each Exchange which Registered
Common Stock (\$1.00 par value)	The NASDAQ Stock Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 403 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act.

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

As of March 1, 2011, the Registrant had issued and outstanding 6,048,405 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2010, the last business day of the Registrant's most recently completed second quarter, was \$7,368,130.\*

\* Based on the last reported price of \$2.00 of an actual transaction in the Registrant's Common Stock on June 30, 2010, and reports of beneficial ownership filed by directors and executive officers of the Registrant. Shares of Common Stock held by any executive officer or director of the Registrant have been excluded from the foregoing computation because such persons may be deemed to be affiliates; provided, however, such determination of shares owned by affiliates does not constitute an admission of affiliate status or beneficial interest in shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders (the "2011 Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

As used in this report, the terms "we," "us," "our," "Centrue" and the "Company" mean Centrue Financial Corporation and subsidiary, unless the context indicates another meaning, and the term "Common Stock" means our common stock, par value \$1.00 per share.

CENTRUE FINANCIAL CORPORATION  
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Centrue Financial Corporation

Part I

(Table Amounts In Thousands, Except Share Data)

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Item 1. Business

The Company

Centrue Financial Corporation

Centrue Financial Corporation (the “Company”) is a bank holding company incorporated in Delaware in 1982 for the purpose of becoming a holding company registered under the Bank Holding Company Act of 1956, as amended (the “Act”). The Company is a publicly traded banking company with assets of \$1.105 billion at year-end 2010 and is headquartered in St. Louis, Missouri. The Company provides a full range of banking services to individual and corporate customers extending from western and southern suburbs of the Chicago metropolitan area across Central Illinois down to metropolitan St. Louis area.

The Company operates one wholly owned subsidiary: Centrue Bank (the “Bank”), employing 291.5 full-time equivalent employees at December 31, 2010. The Company has responsibility for the overall conduct, direction, and performance of the Bank. The Company provides various services, establishes Company-wide policies and procedures, and provides other resources as needed, including capital.

Subsidiary

At December 31, 2010, the Bank had \$1.102 billion in total assets, \$934.1 million in total deposits, and twenty-eight offices (twenty-six full-service bank branches and two back-room sales support non-banking facilities) located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area.

The Bank is engaged in commercial and retail banking and offers a broad range of lending, depository, and related financial services, including accepting deposits; commercial and industrial, consumer, and real estate lending and other banking services tailored for consumer, commercial and industrial, and public or governmental customers.

Competition

The Company’s market area is highly competitive with numerous commercial banks, savings and loan associations and credit unions. In addition, financial institutions, based in surrounding communities and in the southern and western metro area of Chicago and the suburban metro area of St. Louis, actively compete for customers within the Company’s market area. The Company also faces competition from finance companies, insurance companies, mortgage companies, securities brokerage firms, money market funds, loan production offices and other providers of financial services.

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

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

1.

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Centrue Financial Corporation

Part I

(Table Amounts In Thousands, Except Share Data)

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## Supervision And Regulation

### General

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

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

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

### The Company

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

Investments and Activities. Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the other bank or bank holding company (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank; or (iii) merging or consolidating with another bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the BHCA), the Federal Reserve may allow a

bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws which require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

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(Table Amounts In Thousands, Except Share Data)

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

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

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

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

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

**Capital Requirements.** Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve's capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: a risk-based requirement expressed as a percentage of total risk-weighted assets, and a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders' equity less intangible assets (other than certain mortgage servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments which do not qualify as Tier 1 capital and a portion of the company's allowance for loan and lease losses.

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(Table Amounts In Thousands, Except Share Data)

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or by the risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

As of December 31, 2010, the Company had regulatory capital as follows:

	Risk-Based Capital Ratio		Leverage Capital Ratio	
Company	9.35	%	5.08	%

The risk-based capital ratio and the leverage capital ratio were 1.35% and 1.08% respectively, in excess of the Federal Reserve's minimum requirements. See Note 18 in the Notes in Consolidated Financial Statements for further information.

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

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

As a result of the Company's issuance of Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the "Preferred Shares") to the U. S. Department of Treasury (the "Treasury") pursuant to the Troubled Asset Relief Program's ("TARP") Capital Purchase Program ("CPP"), the Company is restricted in the payment of dividends and, without the Treasury's consent, may not declare or pay any dividend on the Company's common stock in excess of \$0.14 per share per quarter, as adjusted for any stock dividend or stock split. This restriction no longer applies on the earlier to occur of January 9, 2012 (the third anniversary of the issuance of the Preferred Shares to the Treasury) or the date on which the Company has redeemed all of the Preferred Shares issued or the date on which the Treasury has transferred all of the Preferred Shares to third parties not affiliated with the Treasury. In addition, as long as the Preferred Shares are outstanding, dividend payments are prohibited until all accrued and unpaid dividends are paid on such Preferred Shares, subject to certain limited exceptions. On August 10, 2009, the Company announced that it would defer scheduled dividend payments on the Preferred Shares.

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Centrue Financial Corporation

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(Table Amounts In Thousands, Except Share Data)

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Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The SEC and the NASDAQ have adopted regulations and policies under the Sarbanes-Oxley Act of 2002 that will apply to the Company as a registered company under the Exchange Act and as a NASDAQ-traded company. The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Exchange Act.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. Sarbanes-Oxley section 404 requires significant oversight of a public company's internal control over the financial statements.

Recent Developments. The Emergency Economic Stabilization Act of 2008 ("EESA") was enacted on October 3, 2008. Pursuant to its authority under EESA, the Treasury created the TARP CPP under which the Treasury was authorized to invest in non-voting, senior preferred stock of U.S. banks and savings associations or their holding companies. The Company participated in the TARP CPP and on January 9, 2009, completed the sale of \$32.7 million in preferred shares to the Treasury. The Company issued the Preferred Shares (32,668 shares), with a \$1,000 per share liquidation preference, and a warrant to purchase up to 508,320 shares of the Company's common stock at an exercise price of \$9.64 per share (the "Warrant").

The Preferred Shares issued by the Company pay cumulative dividends of 5% a year for the first five years and 9% a year thereafter. Both the Preferred Shares and the Warrant are accounted for as components of regulatory Tier 1 capital. Among other restrictions, the securities purchase agreement between the Company and the Treasury limits the Company's ability to repurchase its stock and subjects the Company to certain executive compensation limitations. The terms of the Preferred Shares, as amended by the American Recovery and Reinvestment Act of 2009 ("ARRA"), provide that the Preferred Shares, may be redeemed by the Company, in whole or in part, upon approval of the Treasury and the Company's primary banking regulators. In addition, if dividends on the Preferred Shares are not paid in full for six dividend periods, the Treasury will have the right to elect two directors to the Company's Board of Directors. The Treasury's right to elect directors ends when full dividends have been paid for four consecutive dividend periods. As detailed in the Dividends section above, the Company has announced that it would defer scheduled dividend payments on the Preferred Shares.

ARRA was enacted on February 17, 2009. Among other things, ARRA sets forth additional limits on executive compensation at all financial institutions receiving federal funds under any program, including the TARP CPP, both

retroactively and prospectively. The executive compensation restrictions in ARRA include, among others: limits on compensation incentives, prohibitions on “Golden Parachute Payments” to certain employees, the establishment by publicly registered TARP CPP recipients of a board compensation committee comprised entirely of independent directors for the purpose of reviewing employee compensation plans, and the requirement of a non-binding vote on executive pay packages at each annual shareholder meeting until the government funds are repaid.

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In June 2010, the Federal Reserve issued final guidance to ensure that incentive compensation arrangements at financial institutions take into account risk and are consistent with safe and sound practices. The guidance does not set forth any formulas or pay caps, but sets forth certain principles which companies would be required to follow with respect to certain employees and groups of employees that may expose the institution to material amounts of risk.

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

The Dodd-Frank Act deals with a wide range of regulatory issues including, but not limited to: mandating new capital requirements that would require certain bank holding companies to be subject to the same capital requirements as their depository institutions; eliminating (with certain exceptions) trust preferred securities; codifying the Federal Reserve’s Source of Strength doctrine; creating a Bureau of Consumer Financial Protection which will have the power to exercise broad regulatory, supervisory and enforcement authority concerning both existing and new consumer financial protection laws; permanently increasing federal deposit insurance protection to \$250,000 per depositor; extending the unlimited coverage for qualifying non-interest bearing transactional accounts until December 31, 2012; increasing the ratio of reserves to deposits minimum to 1.35 percent; assessing premiums for deposit insurance coverage on average consolidated total assets less average tangible equity, rather than on a deposit base; authorizing the assessment of examination fees; establishing new standards and restrictions on the origination of mortgages; permitting financial institutions to pay interest on business checking accounts; limiting interchange fees payable on debit card transactions; and implementing requirements on boards, corporate governance and executive compensation for public companies.

The complete impact of the Dodd-Frank Act is unknown since many of the substantive requirements will be contained in the many rules and regulations to be implemented. However, the Dodd-Frank Act will have significant and immediate effects on banks and bank holding companies in many areas.

#### The Bank

##### Centrue Bank

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

Deposit Insurance. As an FDIC-insured institution, pursuant to a risk-based assessment system, the Bank is required to pay deposit insurance premium assessments to the Deposit Insurance Fund. The Dodd-Frank Act permanently raised the basic limit on deposit insurance coverage from \$100,000 to \$250,000 per depositor. In addition, in November 2010, pursuant to the Dodd-Frank Act, the FDIC issued a final rule to provide temporary unlimited deposit insurance coverage for non-interest bearing accounts from December 31, 2010 through December 31, 2012, at no additional

surcharge.

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(Table Amounts In Thousands, Except Share Data)

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Under the FDIC's risk-based assessment regulations, there are four risk categories, and each insured institution is assigned to a risk category based on capital levels and supervisory ratings. Well-capitalized institutions with CAMELS composite ratings of 1 or 2 are placed in Risk Category I while other institutions are placed in Risk Categories II, III or IV depending on their capital levels and CAMELS composite ratings. The assessment rates may be changed by the FDIC as necessary to maintain the deposit insurance fund at the reserve ratio designated by the FDIC. The FDIC may set the reserve ratio annually at between 1.15% and 1.50% of insured deposits.

Due to a decrease in the reserve ratio of the deposit insurance fund, in October 2008, the FDIC established a restoration plan to restore the reserve ratio to at least 1.15% within five years (the FDIC has extended this time to eight years). The reserve ratio has now been increased to 1.35% by the Dodd-Frank Act. The FDIC has been directed to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets. To achieve these levels, the FDIC is authorized by the Dodd-Frank Act to make special assessments and charge examination fees.

On December 16, 2008, the FDIC adopted and issued a final rule increasing the rates banks pay for deposit insurance uniformly by 7 basis points (annualized) effective January 1, 2009. Under the final rule, risk-based rates for the first quarter 2009 assessment ranged between 12 and 50 basis points (annualized). The 2009 first quarter assessment rates varied depending on an institution's risk category. On February 27, 2009, the FDIC adopted a final rule amending the way that the assessment system differentiates for risk and setting new assessment rates beginning with the second quarter of 2009. As of April 1, 2009, for the highest rated institutions, those in Risk Category I, the initial base assessment rate was between 12 and 16 basis points and for the lowest rated institutions, those in Risk Category IV, the initial base assessment rate was 45 basis points. The final rule modified the means to determine a Risk Category I institution's initial base assessment rate. It also provided for the following adjustments to an institution's assessment rate: (1) a decrease for long-term unsecured debt, including most senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) an increase for secured liabilities above a threshold amount; and (3) for institutions in risk categories other than Risk Category I, an increase for brokered deposits above a threshold amount. After applying these adjustments, for the highest rated institutions, those in Risk Category I, the total base assessment rate is between 7 and 24 basis points and for the lowest rated institutions, those in Risk Category IV, the total base assessment rate is between 40 and 77.5 basis points.

On May 22, 2009, the FDIC also imposed a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of June 30, 2009. The special assessment was collected on September 30, 2009, and the Bank paid an additional assessment of \$0.6 million.

On November 12, 2009, the FDIC adopted the final rule that required insured institutions to prepay on December 31, 2009, estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. For purposes of calculating the prepayment amount, the institution's third quarter 2009 assessment base was increased quarterly at a five percent annual rates uniformly by three basis beginning in 2011. Based on the Bank's risk rating, no prepayment of these assessments was required.

As required by the Dodd-Frank Act, on February 7, 2011, the FDIC adopted a final rule that redefines its deposit insurance premium assessment base to be an insured depository institution's average consolidated total assets minus average tangible equity. In addition, the FDIC has revised its deposit insurance rate schedules as a consequence of the changes to the assessment base. The proposed rate schedule and other revisions become effective on April 1, 2011.

On November 21, 2008, the FDIC adopted final regulations implementing the Temporary Liquidity Guarantee Program (“TLGP”) pursuant to which depository institutions could elect to participate. Pursuant to the TLGP, the FDIC provides full FDIC deposit insurance coverage for non-interest bearing deposit transaction accounts regardless of dollar amount for an additional fee assessment by the FDIC (the “Transaction Account Guarantee”). These accounts are mainly payment-processing accounts, such as business payroll accounts. The Bank did not opt out of the Transaction Account Guarantee portion of the TGLP. The Transaction Account Guarantee was to expire on December 31, 2009, but was extended until December 31, 2010. The Dodd-Frank Act provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions. There is no additional surcharge related to this coverage.

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Also pursuant to the TLGP, the FDIC will guarantee, through the earlier of maturity or December 31, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008 and before October 31, 2009 (the “Debt Guarantee”). The Company and the Bank opted out of the Debt Guarantee portion of TLGP.

In 2006, the FDIC adopted a final rule allocating a one-time assessment credit among insured financial institutions. This credit may be used to offset deposit insurance assessments (not to include FICO assessments) beginning in 2007. The Company began taking advantage of this credit in 2007 and realized benefits from this credit thru the second quarter of 2009.

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

FICO Assessments. FDIC insured institutions are also subject to assessments to cover interest payments due on the outstanding obligations of the Financing Corporation (“FICO”). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance until the final maturity of the outstanding FICO obligations in 2019. FDIC insured institutions will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 2010, the FICO assessment rate for DIF members ranged between approximately 0.0104% of deposits and approximately 0.0106% of deposits. During the year ended December 31, 2010 the Bank paid FICO assessments totaling \$0.1 million.

For the first quarter of 2011, the rate established by the FDIC for the FICO assessment is 0.0102% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the IDFPR to fund the operations of the IDFPR. The amount of the assessment is calculated based on the institution’s total assets, including consolidated subsidiaries, as reported to the IDFPR. During the year ended December 31, 2010, the Bank paid supervisory assessments to the IDFPR totaling \$0.2 million.

Capital Requirements. The Federal Reserve has established the following minimum capital standards for state-chartered Federal Reserve System member banks, such as the Bank: a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. For purposes of these capital standards, Tier 1 capital and total capital consist of substantially the same components as Tier 1 capital and total capital under the Federal Reserve’s capital guidelines for bank holding companies (see “—The Company—Capital Requirements”).

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the

Federal Reserve provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

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## Centrue Financial Corporation

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(Table Amounts In Thousands, Except Share Data)

During the year ended December 31, 2010, the Bank was not required by the Federal Reserve to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 2010, the Bank had regulatory capital as follows:

	Risk-Based Capital Ratio		Leverage Capital Ratio	
The Bank	9.69	%	5.96	%

The risk-based capital ratio and the leverage capital ratio are 1.69% and 1.96% in excess of the Federal Reserve's minimum requirements. See Note 18 in the Notes in Consolidated Financial Statements for further information.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the institution to submit a capital restoration plan; limiting the institution's asset growth and restricting its activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions between the institution and its affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution. As of December 31, 2010, the Bank was considered adequately capitalized.

Additionally, institutions insured by the FDIC may be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of commonly controlled FDIC insured depository institutions or any assistance provided by the FDIC to commonly controlled FDIC insured depository institutions in danger of default.

**Regulatory Agreements.** On December 18, 2009, the Bank entered into a written agreement (the "Agreement") with the Federal Reserve Bank of Chicago (the "Federal Reserve-Chicago") and the IDFP. The Agreement describes commitments made by the Bank to address and strengthen banking practices relating to credit risk management practices; improving loan underwriting and loan administration; improving asset quality by enhancing the Bank's position on problem loans through repayment, additional collateral or other means; reviewing and revising as necessary the Bank's allowance for loan and lease losses policy; maintaining sufficient capital at the Bank, implementing an earnings plan and comprehensive budget to improve and sustain the Bank's earnings; and improving the Bank's liquidity position and funds management practices. The Bank has implemented enhancements to its processes to address the matters identified by the Federal Reserve-Chicago and the IDFP and continues its efforts to comply with all the requirements specified in the Agreement. In the meantime, the Agreement results in the Bank's ineligibility for certain actions and expedited approvals without the prior written consent and approval of the Federal Reserve-Chicago and the IDFP. These prohibited actions include, among other things, the Bank paying dividends to the Company, the Company paying dividends on its common or preferred stock, distributions of interest or principal on subordinated debentures, note payable to Cole Taylor and Trust Preferred securities, the Company increasing its

debt level and the Company redeeming or repurchasing any shares of its stock.

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Centrue Financial Corporation

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(Table Amounts In Thousands, Except Share Data)

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

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, notwithstanding the availability of funds for dividends, the Federal Reserve may prohibit the payment of any dividends by the Bank if the Federal Reserve determines such payment would constitute an unsafe or unsound practice. As discussed above, the Agreement requires the Bank to obtain the prior written consent of the Federal Reserve-Chicago for the payment of dividends. During 2011, the Bank will not be expected to pay dividends.

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

Safety and Soundness Standards. The federal banking agencies have adopted guidelines which establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

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

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

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(Table Amounts In Thousands, Except Share Data)

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

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

Reserve Requirement. Federal Reserve regulations, as presently in effect, require depository institutions including the Bank to maintain cash reserves against their net transaction accounts (primarily NOW and regular checking accounts). Effective October 9, 2008, the Federal Reserve Banks are now authorized to pay interest on such reserves.

#### EXECUTIVE OFFICERS

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the board of directors. In addition to the information provided in the 2011 Proxy Statement, the names and ages of the executive officers of the Company, as well as the offices of the Company and the Subsidiary held by these officers on that date, and principal occupations for the past five years are set forth below.

Thomas A. Daiber, 53, is the President & Chief Executive Officer of Centrue Financial Corporation and the Bank. Mr. Daiber joined Centrue Financial in October of 2002 as its President and Chief Executive Officer.

Kurt R. Stevenson, 44, is the Senior Executive Vice President & Chief Financial Officer of Centrue Financial Corporation and the Bank and has held that role since 2003.

Everett J. Solon, 58, is the Market President for the Bank’s Streator, Dwight, Ottawa and Peru locations, a position held since 2003. In 2007, he also acted as the Bank’s Head of Mortgage Banking.

Robert L. Davidson, 65, is the Bank’s Executive Vice President, Chief Investment Officer and ALCO Manager, a position held since January of 2006. He had previously served as the Bank’s Senior Vice President, Chief Investment Officer and ALCO Manager since 2001.

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(Table Amounts In Thousands, Except Share Data)

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Roger D. Dotson, 63, is the Bank's Executive Vice President, a position held since late 2007. In 2009, he was also named the Head of Operations. In this capacity, he is responsible for oversight in the operations, IT, deposit operations, and loan operations areas. He had previously served as the Bank's Head of Retail Banking. Mr. Dotson joined Centrue Bank as their Regional President in 2005. Prior to joining the Bank, Mr. Dotson served as the President & CEO of Illinois Community Bank located in Effingham, Illinois.

Heather M. Hammitt, 36, is the Bank's Executive Vice President & Head of Human Resources & Corporate Communications. Ms. Hammitt joined the Bank in March of 1998 and has served in various positions of management in the human resources department during that time.

Kenneth A. Jones, 47, is the Bank's Executive Vice President & Chief Credit Officer. Mr. Jones joined the Bank in October 2000 and, prior to his current position, he served in the role of Commercial Collector.

James J. Kerley, Jr., 62, is the Bank's Executive Vice President & Senior Lender. Prior to joining the Bank in May of 2009, Mr. Kerley was an agent with Fiduciary Asset Management, an investment management firm, since 1999 and was also a partner of KD Advisory LLC, a consulting firm providing workout services to banks, since 2007.

Diane F. Leto, 49, is the Bank's Executive Vice President & Chief Risk Officer. She had previously served as the Bank's Executive Vice President & Head of Operations through year-end 2008. She has been with the Bank since June of 2004.

Ricky R. Parks, 45, is the Market President for the Bank's Fairview Heights, Aviston, Belleville, and St. Rose locations. Mr. Parks joined Centrue Bank in January of 2004 as a Senior Vice President and Senior Lender and in October of 2004 was named its Regional Bank President.

Mary Jane Raymond, 54, is the Bank's Executive Vice President & Head of Retail Banking. Ms. Raymond joined Centrue Bank in March of 2005 as a Vice President/Regional Sales Manager. Prior to joining Centrue Bank, Ms. Raymond worked as a Vice President for Regions Bank from May of 1997 to March of 2005.

#### Available Information

Our Internet address is [www.centrue.com](http://www.centrue.com). There we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the investor relations section of our Web site. The information found on our Web site is not part of this or any other report we file with or furnish to the SEC.

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(Table Amounts In Thousands, Except Share Data)

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Item 1A. Risk Factors

An investment in the Company's common stock is subject to risks inherent to the Company's business. The Company faces a variety of risks that are inherent in its business, including interest rate, credit, liquidity, capital, price/market, transaction/operation, compliance/legal, strategic and reputation. Following is a discussion of these risk factors. While the Company's business, financial condition and results of operations could be harmed by any of the following risks or other factors discussed elsewhere in this report, including Management's Discussion and Analysis and Notes to the Consolidated Financial Statements, the mere existence of risk is not necessarily reason for concern. However, the following risks could cause actual results to materially differ from those discussed in any forward-looking statement.

The Company and the Bank are subject to Regulatory Agreements and Orders that restrict the Company from taking certain actions.

On December 18, 2009, the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Chicago and the Illinois Department of Financial & Professional Regulation ("IDFPR"). The Agreement describes commitments made by the Company and the Bank to address and strengthen banking practices relating to credit risk management practices; improving loan underwriting and loan administration; improving asset quality by enhancing the Bank's position on problem loans through repayment, additional collateral or other means; reviewing and revising as necessary the Bank's allowance for loan and lease losses policy; maintaining sufficient capital at the Company and the Bank, implementing an earnings plan and comprehensive budget to improve and sustain the Bank's earnings; and improving the Bank's liquidity position and funds management practices. The Bank has implemented enhancements to its processes to address the matters identified by the Federal Reserve-Chicago and the IDFPR and continues its efforts to comply with all the requirements specified in the Agreement. In the meantime, the Agreement results in the Bank's ineligibility for certain actions and expedited approvals without the prior written consent and approval of the Federal Reserve-Chicago and the IDFPR. These prohibited actions include, among other things, the Bank paying dividends to the Company, the Company paying dividends on its common or preferred stock, distributions of interest or principal on subordinated debentures or Trust Preferred securities, the Company increasing its debt level and the Company redeeming or repurchasing any shares of its stock.

The Company's earnings and cash flows are largely dependent upon net interest income.

The Company's earnings and cash flows are largely dependent upon its net interest income. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Company's ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of the Company's mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. In addition, the Company's interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on the Company's balance sheet. See Part II sections "Net Interest Income" and "Interest Rate Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion related to the Company's management of interest rate risk.

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(Table Amounts In Thousands, Except Share Data)

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The Company and the Bank may not be able to maintain adequate capital levels.

Maintaining sufficient capital serves as a buffer against potential credit and other losses that the Company may encounter during difficult times. There are five levels of capital defined by regulation: “well-capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized” and “critically undercapitalized”. The Federal Reserve-Chicago and IFDRR has advised the Bank that it is being treated as “adequately capitalized”. Capital risk includes the potential effect on the Company’s reputation as well as certain other potential consequences should the capital level fall below adequately capitalized. As a result of the Bank being “adequately capitalized”, the Bank is currently experiencing changes in the Bank’s borrowing costs and terms from regulatory authorities and other third parties, the Bank’s FDIC deposit insurance premiums, and its ability to access brokered CD markets.

We incurred net losses for 2010 and 2009 and cannot make any assurances that we will not incur further losses.

We incurred a net loss of \$65.8 million and \$38.1 million for the years ended December 31, 2010 and 2009, respectively, due to high levels of provision for loan losses, deferred tax valuation allowance, security impairments, and goodwill impairment. We cannot provide any assurances that we will not incur future losses, especially in light of economic conditions that continue to adversely affect our borrowers.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

At December 31, 2010 and 2009, our nonperforming loans (which consist of non-accrual loans, troubled debt restructures and loans past due 90 days or more and still accruing loans) totaled \$70.0 million and \$80.9 million, or 9.7% and 9.1% of our loan portfolio, respectively. At December 31, 2010 and 2009, our nonperforming assets (which include non-performing loans plus other real estate owned) were \$95.6 million and \$97.1 million, or 8.7% and 7.4% of total assets, respectively. Our nonperforming assets adversely affect our net income in various ways. While we pay interest expense to fund nonperforming assets, we do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our income and returns on assets and equity, and our loan administration costs increase and our efficiency ratio is adversely affected. When we take collateral in foreclosures and similar proceedings, we are required to mark the collateral to its then-fair market value, which, when compared to the value of the loan, may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. The resolution of nonperforming assets requires significant time commitments from management, which can be detrimental to the performance of their other responsibilities. There is no assurance that we will not experience further increases in non-performing loans in the future, or that our nonperforming assets will not result in further losses in the future.

Our allowance for loan losses may be insufficient.

Managing the Company’s allowance for loan losses is based upon, among other things, (1) historical experience, (2) an evaluation of local and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit, and (6) results of regulatory examinations. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the respective loan portfolios. Although the Company believes that the allowance for loan losses is adequate, there can be no assurance that such allowance will

prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions change or adverse developments arise with respect to nonperforming or performing loans or if regulatory supervision changes. Material additions to the allowance for loan losses would result in a material decrease in the Company's net income, and possibly its capital, among other adverse consequences.

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(Table Amounts In Thousands, Except Share Data)

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We are subject to lending risk.

As of December 31, 2010 approximately 75.61% of the Company's loan portfolio consisted of commercial, agricultural production and agricultural real estate, construction, land and development, and commercial real estate loans (collectively, "commercial loans"). Commercial loans are generally viewed as having more inherent risk of default than residential mortgage loans or retail loans. In addition, the commercial loan balance per borrower is typically larger than that for residential mortgage loans and retail loans, inferring higher potential losses on an individual loan basis. Because the Company's loan portfolio contains a number of commercial loans with large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See Part II "Loans" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion of credit risks related to different loan types.

We are subject to economic conditions of our geographic market.

The Company's success depends to a large degree on the general economic conditions of the geographic markets served by the Bank in the States of Illinois and Missouri and, to a lesser extent, contiguous states. The local economic conditions on these areas have a significant impact on the generation of the Bank's commercial, real estate commercial, and real estate construction loans; the ability of borrowers to repay these loans; and the value of the collateral securing these loans. Adverse changes in the economic conditions of the counties in which we operate could also negatively impact the financial results of the Company's operations and have a negative effect on its profitability. For example, these factors could lead to reduced interest income and an increase in the provision for loan losses.

A portion of the loans in the Company's portfolio is secured by real estate. Most of these loans are secured by properties located in the north central, east central, south central and St. Louis's suburban east counties of Illinois, as well as, the St. Louis metro area of Missouri. Negative conditions in the real estate markets where collateral for a mortgage loan is located could adversely affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various factors, including changes in general or regional economic conditions, supply and demand for properties and governmental rules or policies.

We are subject to current levels of market volatility.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Future growth or operating results may require the Company to raise additional capital but that capital may not be available or it may be dilutive.

To the extent the Company's future operating results erode capital or the Company elects to expand through loan growth or acquisition it may be required to raise capital. The Company's ability to raise capital will depend on conditions in the capital markets, which are outside of its control, and on the Company's financial performance. Accordingly, the Company cannot be assured of its ability to raise capital when needed or on favorable terms. If the Company cannot raise additional capital when needed, it will be subject to increased regulatory supervision and the imposition of restrictions on its growth and business. These could negatively impact the Company's ability to operate or further expand its operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on its financial condition and results of operations.

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(Table Amounts In Thousands, Except Share Data)

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Real estate market volatility and future changes in disposition strategies could result in net proceeds that differ significantly from other real estate owned (“OREO”) fair value appraisals.

The Company’s OREO portfolio consists of properties that it obtained through foreclosure in satisfaction of loans. OREO properties are recorded at the lower of the recorded investment in the loans for which the properties served as collateral or estimated fair value, less estimated selling costs. Generally, in determining fair value an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during 2008 through 2010.

In response to market conditions and other economic factors, the Company may utilize alternative sale strategies other than orderly dispositions as part of its OREO disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from estimates used to determine the fair value of the Company’s OREO properties.

We are subject to the risk of additional impairment charges relating to our securities portfolio.

Our investment securities portfolio is our second largest earning asset. The value of our investment portfolio has been adversely affected by the unfavorable conditions of the capital markets in general as well as declines in values of the securities we hold. We have taken an aggregate of \$19.7 million in charges against earnings since the fourth quarter of 2008 for impairments to the value of pooled collateralized debt obligations and certain collateralized mortgage obligations that we have concluded were “other than temporary.” The value of this segment is particularly sensitive to adverse developments affecting the banking industry and the financial condition or performance of the issuing banks – factors that we have no control over and as to which we may receive no advance warning, as was the case in the second quarter for one of these securities. Although we believe we have appropriately valued our securities portfolio, we cannot assure you that there will not be additional material impairment charges which could have a material adverse effect on our financial condition and results of operations.

The Company is a bank holding company and its sources of funds are limited.

The Company is a bank holding company, and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to stockholders of the Company is derived primarily from dividends received from the Bank. The Company’s ability to receive dividends or loans from its subsidiaries is restricted. Dividend payments by the Bank to the Company in the future will require generation of future earnings by the Bank and would require regulatory approval. Further, the Company’s right to participate in the assets of the Bank upon its liquidation, reorganization, or otherwise will be subject to the claims of the Bank’s creditors, including depositors, which will take priority except to the extent the Company may be a creditor with a recognized claim. As of December 31, 2010, the Company’s subsidiary had deposits and other liabilities of \$1.028 billion.

The Company could experience an unexpected inability to obtain needed liquidity.

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on the Company's business and, in turn, the Company's financial condition and results of operations.

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(Table Amounts In Thousands, Except Share Data)

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Our information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan, and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of its information systems, we cannot assure you that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Bank's deposit insurance premiums have increased which could have a material adverse effect on future earnings.

Due to the impact on the FDIC insurance fund resulting from the recent increase in bank failures, the FDIC raised its insurance premiums and levied special assessments on all financial institutions. In addition, the FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the deposit insurance fund. The FDIC places all financial institutions into one of four risk categories using a two-step process based first on the respective institution's capital ratios and then on the CAMELS composite supervisory rating assigned to the institution by its primary federal regulator in connection with its periodic regulatory examinations. As of December 31, 2010, the Bank is "adequately capitalized" under regulatory guidelines. Due to the "adequately capitalized" status of the Bank and other factors indicating higher risk, the FDIC will charge the Bank a higher premium for deposit insurance. The combination of the general increase in FDIC insurance rates and higher FDIC insurance rates resulting from the classification of the Bank in a higher risk category will have an adverse impact on the Company's results of operations.

The Company may fail to meet continued listing requirements with NASDAQ.

The Company's common stock is listed on the NASDAQ Global Select Market. As a NASDAQ Global Select Market listed company, Centrue is required to comply with the continued listing requirements of the NASDAQ Market Place Rules.

On December 28, 2010, the Company received a notice from the NASDAQ Stock Market that it was not in compliance with NASDAQ's Marketplace Rule, which requires it to maintain a minimum Market Value of Publicly Held Shares ("MVPHS") of \$5,000,000.

In accordance with this Marketplace Rule, the Company is provided a grace period of 180 calendar days, or until June 27, 2011, in which to regain compliance with the MVPHS rule. If at anytime during the grace period the Company's MVPHS closes at \$5,000,000 or more for a minimum of ten consecutive business days, the Company will have complied with the rule and the matter will be closed. If compliance with the rule cannot be demonstrated by June 27, 2011, NASDAQ will provide the Company written notification that the Company's common stock will be delisted, at which time the Company may appeal the determination.

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Centrue Financial Corporation

Part I

(Table Amounts In Thousands, Except Share Data)

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On February 22, 2011, the Company received a notice from the NASDAQ Stock Market that it was not in compliance with NASDAQ's Marketplace Rule, which requires it to maintain a minimum bid price of \$1.00 per share.

In accordance with this Marketplace Rule, the Company is provided a grace period of 180 calendar days, or until August 22, 2011, in which to regain compliance with the Minimum Bid Price Rule. If at anytime during the grace period the Company's minimum bid price of the Company's common stock closes at \$1.00 or more for a minimum of ten consecutive business days, the Company will have complied with the rule and the matter will be closed. If compliance with the rule cannot be demonstrated by August 22, 2011, NASDAQ will provide the Company written notification that the Company's common stock will be subject to delisting. The Company may, however, be eligible for an additional grace period if it satisfies the initial listing standards (with the exception of the Minimum Bid Price Rule) for listing on the NASDAQ Capital Market, and it submits a timely application to NASDAQ to transfer the listing of its common stock to the NASDAQ Capital Market and provides written notice of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split if necessary.

During the grace periods described above, the Company will consider its alternatives, including whether to apply to transfer its common stock listing to an alternative exchange or inter-dealer quotation system such as the OTC Bulletin Board.

Loss of or damage to the Company's reputation may affect ongoing profitability.

Reputation risk arises from the possibility that negative publicity regarding the Company's business practices, whether true or not, will cause a decline in its customer base or result in costly litigation. In a service industry, such as the financial services industry, where product choices between companies are not always clearly distinguishable and which in many cases are interchangeable, a company's reputation for honesty, fair-dealing and good corporate governance may be one of its most important assets. Loss of or damage to that reputation can have severe consequences.

We are subject to current financial market risk.

In 2010 and continuing in 2011, governments, regulators and central banks in the United States and worldwide have taken numerous steps to increase liquidity and to restore investor confidence, but asset values have continued to decline and access to liquidity continues to be very limited.

The EESA authorizes the U. S. Treasury to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions and their holding companies, under TARP. The purpose of TARP is to restore confidence and stability to the United States banking system and to encourage financial institutions to increase their lending to customers and to each other. Under the Capital Purchase Program, which the Company participated in, the U. S. Treasury is purchasing equity securities from participating institutions. The EESA also increased federal deposit insurance on most deposit accounts from \$100,000 to \$250,000. This increase is in place until December 31, 2013 and is not covered by deposit insurance premiums paid by the banking industry. The ARRA, which was signed into law on February 17, 2009, includes a wide array of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health and education needs. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial

condition, results of operations, access to credit or the trading price of our Common Stock.

The EESA and the ARRA followed, and have been followed by, numerous actions by the Federal Reserve Board, the United States Congress, the U. S. Treasury, the FDIC, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime mortgage meltdown that began in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to stabilize the United States banking system. The EESA, the ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

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Centrue Financial Corporation

Part I

(Table Amounts In Thousands, Except Share Data)

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We operate in a highly regulated industry.

The banking industry is heavily regulated. The banking business of the Company and the Bank are subject, in certain respects, to regulation by the Federal Reserve, the FDIC, the IDFP and the SEC. The Company's success depends not only on competitive factors but also on state and federal regulations affecting banks and bank holding companies. The regulations are primarily intended to protect depositors, not stockholders or other security holders. The ultimate effect of recent and proposed changes to the regulation of the financial institution industry cannot be predicted. Regulations now affecting the Company may be modified at any time, and there is no assurance that such modifications, if any, will not adversely affect the Company's business.

We operate in an industry that is interrelated such that defaults by other larger institutions could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect our business.

We operate in an industry that is significantly affected by general business and economic conditions.

The Company's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U. S. economy and the local economies in which the Company operates, all of which are beyond the Company's control. Deterioration in economic conditions could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values, and a decrease in demand for the Company's products and services among other things, any of which could have a material adverse impact on the Company's financial condition and results of operations.

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(Table Amounts In Thousands, Except Share Data)

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

At December 31, 2010, the Company operated twenty-eight offices (twenty-five full-service bank branches and two back-room sales support nonbanking facilities in Illinois and one full-service bank branch in Missouri). The principal offices of the Company are located in St. Louis, Missouri. All of the Company's offices are owned by the Bank and are not subject to any mortgage or material encumbrance, with the exception of four offices that are leased: one is located in LaSalle County in Illinois, one in Will County in Illinois, one in St. Clair County in Illinois and one in St. Louis County in Missouri. The Company believes that its current facilities are adequate for its existing business.

Affiliate	Markets Served	Property/Type Location
The Company		Administrative Office: St. Louis, MO
Centrue Bank	Bureau, Champaign, Clinton, DeKalb, Grundy, Kankakee, Kendall, LaSalle, Livingston, St. Clair and Will Counties in Illinois	Main Office: Streator, IL Twenty-five full-service banking offices and two non-banking offices located in markets served.
	St. Louis County in Missouri	One full-service banking office

In addition to the banking locations listed above, the Bank owns twenty-seven automated teller machines, all of which are housed within banking offices.

At December 31, 2010 the properties and equipment of the Company had an aggregate net book value of approximately \$25.7 million.

## Item 3. Legal Proceedings

Neither the Company nor its subsidiary are 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.

## Item 4. Reserved

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## Centrue Financial Corporation

## Part II

(Table Amounts In Thousands, Except Share Data)

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

The Company's Common Stock was held by approximately 868 stockholders of record as of March 1, 2011, and is traded on The NASDAQ Stock Market under the symbol "TRUE." The table below indicates the high and low sales prices of the Common Stock as reported by NASDAQ for transactions of which the Company is aware, and the dividends declared per share for the Common Stock during the periods indicated. Because the Company is not aware of the price at which certain private transactions in the Common Stock have occurred, the prices shown may not necessarily represent the complete range of prices at which transactions in the Common Stock have occurred during such periods.

	Stock Sales		Cash
	High	Low	Dividends
2010			
First Quarter	\$4.18	\$2.50	\$0.00
Second Quarter	3.49	1.89	0.00
Third Quarter	2.16	1.21	0.00
Fourth Quarter	1.59	0.80	0.00
2009			
First Quarter	\$6.95	\$2.76	\$0.07
Second Quarter	6.89	4.07	0.01
Third Quarter	5.74	2.92	0.00
Fourth Quarter	3.79	1.00	0.00

The holders of the Common Stock are entitled to receive dividends as declared by the board of directors of the Company, which considers payment of dividends quarterly. The Bank's ability to pay dividends to the Company and the Company's ability to pay dividends to its stockholders are also subject to certain regulatory restrictions. As discussed on page 9, our Agreement with our regulators prohibits the Bank paying dividends to the Company and the Company paying dividends on its common or preferred stock.

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Centrue Financial Corporation

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(Table Amounts In Thousands, Except Share Data)

The following graph shows a comparison of cumulative total returns for Centrue Financial Corporation, the NASDAQ Stock Market (US Companies) and an index of SNL Midwest Bank Stocks for the five-year period beginning January 1, 2006 and ending on December 31, 2010. The graph was prepared at our request by SNL Financial LC, Charlottesville, Virginia.

COMPARISON OF CUMULATIVE TOTAL RETURN  
(ASSUMES \$100 INVESTED ON JANUARY 1, 2006)

Index	Period Ending					
	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Centrue Financial Corporation	100.00	93.58	110.98	31.63	13.56	5.11
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Midwest Bank	100.00	115.59	90.09	59.27	50.23	62.38

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## Centrue Financial Corporation

## Part II

(Table Amounts In Thousands, Except Share Data)

## Item 6. Selected Financial Data

The following table presents selected consolidated financial data for the five years ended December 31, 2010:

	2010	2009	2008	2007	2006
<b>Statement of Income Data</b>					
Interest income	\$ 48,844	\$ 63,245	\$ 73,518	\$ 83,576	\$ 43,858
Interest expense	18,316	24,562	33,944	44,735	21,351
Net interest income	30,528	38,683	39,574	38,841	22,507
Provision for loan losses	34,600	52,049	8,082	675	(1,275 )
Net interest income (loss) after provision for loan losses	(4,072 )	(13,366 )	31,492	38,166	23,782
Noninterest income	10,818	711	13,409	15,665	6,688
Noninterest expense	55,889	46,658	35,745	37,333	22,723
Income (loss) before income taxes	(49,143 )	(59,313 )	9,156	16,498	7,747
Income taxes (benefit)	16,660	(21,234 )	2,766	5,175	2,145
Income (loss) from continuing operations (after taxes)	(65,803 )	(38,079 )	6,390	11,323	5,602
Loss on discontinued operations	—	—	—	—	(415 )
Net income (loss)	\$ (65,803 )	\$ (38,079 )	\$ 6,390	\$ 11,323	\$ 5,187
Preferred stock dividends	1,924	1,810	207	207	207
Net income (loss) for common stockholders	\$ (67,727 )	\$ (39,889 )	\$ 6,183	\$ 11,116	\$ 4,980
<b>Per Share Data</b>					
Basic earnings (loss) per common shares from continuing operations	\$ (11.20 )	\$ (6.61 )	\$ 1.02	\$ 1.75	\$ 1.31
Basic earnings (loss) per common share	(11.20 )	(6.61 )	1.02	1.75	1.21
Diluted earnings (loss) per common share from continuing operations	(11.20 )	(6.61 )	1.02	1.74	1.30
Diluted earnings (loss) per common share	(11.20 )	(6.61 )	1.02	1.74	1.20
Dividends per common stock	—	0.08	0.55	0.51	0.48
Dividend payout ratio for common stock	NM	NM	53.71 %	29.17 %	27.05 %
	\$ 1.61	\$ 13.15	\$ 19.14	\$ 19.50	\$ 18.23

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Book value per common stock

Basic weighted average common shares outstanding	6,045,225	6,035,598	6,033,896	6,341,693	4,119,235
Diluted weighted average common shares outstanding	6,045,225	6,035,598	6,042,296	6,380,659	4,163,836
Period-end common shares outstanding	6,048,405	6,043,176	6,028,491	6,071,546	6,455,068

Balance Sheet Data

Securities	\$ 229,945	\$ 275,483	\$ 252,562	\$ 249,331	\$ 298,692
Loans	721,871	885,095	1,004,390	957,285	836,944
Allowance for loan losses	31,511	40,909	15,018	10,755	10,835
Total assets	1,105,162	1,312,684	1,401,881	1,364,999	1,283,025
Total deposits	931,105	1,054,689	1,049,220	1,033,022	1,026,610
Stockholders' equity	42,921	112,614	115,908	118,876	118,191

Earnings Performance Data

Return on average total assets	(5.32 )%	(2.82 )%	0.47 %	0.85 %	0.69 %
Return on average stockholders' equity	(66.10 )	(27.80 )	5.43	9.53	6.69
Net interest margin ratio	2.85	3.26	3.32	3.35	3.41
Efficiency ratio (1)	81.05	71.21	64.32	66.67	76.81

Asset Quality Ratios

Nonperforming assets to total end of period assets	8.65 %	7.40 %	1.64 %	0.51 %	1.08 %
Nonperforming loans to total end of period loans	9.70	9.14	1.03	0.43	1.40
Net loan charge-offs to total average loans	5.47	2.74	0.38	0.08	0.22
Allowance for loan losses to total loans	4.37	4.62	1.50	1.12	1.29
Allowance for loan losses to nonperforming loans	45.02	50.59	145.55	262.96	92.14

Capital Ratios

Average equity to average assets	8.05 %	10.14 %	8.69 %	8.90 %	10.35 %
Total capital to risk adjusted assets	9.35	11.34	12.18	10.23	11.94
Tier 1 leverage ratio	5.08	7.10	8.10	7.69	7.90

(1) Calculated as noninterest expense less amortization of intangibles and expenses related to other real estate owned divided by the sum of net interest income before provisions for loan losses and total noninterest income excluding securities gains and losses and gains on sale of assets.

NM Not meaningful.

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Centrue Financial Corporation  
Part II: Management's Discussion and Analysis  
(Table Amounts In Thousands, Except Share Data)

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

The following discussion and analysis is intended to address the significant factors affecting our Consolidated Statements of Income for the years 2008 through 2010 and Consolidated Statements of Financial Condition as of December 31, 2010 and 2009. When we use the terms "Centrue," the "Company," "we," "us," and "our," we mean Centrue Financial Corporation, a Delaware Corporation, and its consolidated subsidiary. When we use the term the "Bank," we are referring to our wholly owned banking subsidiary, Centrue Bank.

Management's discussion and analysis ("MD&A") should be read in conjunction with "Selected Consolidated Financial Data," the consolidated financial statements of the Company, and the accompanying notes thereto. Unless otherwise stated, all earnings per share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis. All financial information in the following tables are displayed in thousands (000s), except per share data.

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

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

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

Critical Accounting Policies and Estimates

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

Centrue's significant accounting policies are described in Note 1 in the Notes to the Consolidated Financial Statements. The majority of these accounting policies do not require management to make difficult, subjective or complex

judgments or estimates or the variability of the estimates is not material. However, the following policies could be deemed critical:

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

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Centrue Financial Corporation

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(Table Amounts In Thousands, Except Share Data)

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Realized securities gains or losses are reported in securities gains (losses), net in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Declines in the fair value of available for sale securities below their amortized cost are evaluated to determine whether the loss is temporary or other-than-temporary. If the Company (a) has the intent to sell a debt security or (b) is more likely than not will be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire unrealized loss in earnings as an other-than-temporary loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The impairment is separated into (a) the amount of the total impairment related to the credit loss and (b) the amount of total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income.

The Company also evaluates whether the decline in fair value of an equity security is temporary or other-than-temporary. In determining whether an unrealized loss on an equity security is temporary or other-than-temporary, management considers various factors including the magnitude and duration of the impairment, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the equity security to forecasted recovery.

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

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

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

**Historical Loss Component.** The historical loss component is mathematically based using a modified loss migration analysis that examines historical loan loss experience for each loan category. The loss migration is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts



necessary for concentrations and changes in portfolio mix and volume. The methodology utilized by management to calculate the historical loss portion of the allowance adequacy analysis is based on historical losses. During 2009, this historical loss period migrated from a rolling twenty quarters average (5 years) to a weighted twelve-quarter average (3 years). This migration reflects the increasing economic risk and higher losses being experienced in the portfolio; and

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

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

**Other Real Estate Owned:** Other real estate owned includes properties acquired in partial or total satisfaction of certain loans. Properties are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the fair value, which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Any write-downs in the carrying value of a property at the time of acquisition are charged against the allowance for loan losses. Management periodically reviews the carrying value of other real estate owned. Any write-downs of the properties subsequent to acquisition, as well as gains or losses on disposition and income or expense from the operations of other real estate owned, are recognized in operating results in the period they are realized.

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

Based upon impairment testing in the second quarter of 2009, Centrue Bank indicated potential impairment and was subjected to the second step of goodwill impairment testing. Centrue Bank experienced operating losses driven by the deterioration in the real estate markets and other-than-temporary impairment losses on pooled trust preferred collateralized debt obligations. The operating losses and the effects of the current economic environment on the valuation of financial institutions and the capital markets had a significant, negative effect on the fair value of Centrue Bank. As a result of applying the second step of the impairment test, Centrue Bank recorded goodwill impairment of \$8.5 million in 2009.

Based upon impairment testing in the fourth quarter of 2009, Centrue Bank indicated potential impairment and was subjected to the second step of goodwill impairment testing. The results of the second step test indicated no additional impairment as the fair value of the balances supported the level of goodwill carried.

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

**Deferred Income Taxes:** In accordance with current income tax accounting guidance, the Company assessed whether a valuation allowance should be established against their deferred tax assets (DTAs) based on consideration of all available evidence using a "more likely than not" standard. The most significant portions of the deductible temporary differences relate to (1) the allowance for loan losses and (2) fair value adjustments or impairment write-downs related to securities.

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

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After evaluating all of the factors previously summarized and considering the weight of the positive evidence compared to the negative evidence, the Company has determined a full valuation adjustment was necessary as of December 31, 2010. A three year cumulative loss position and continued near-term losses represent negative evidence that cannot be overcome with future taxable income. A total of \$31.1 million in valuation adjustments were recorded during the year. Of this amount, \$30.3 million of the valuation was recorded in income tax expense and \$0.8 million was recorded in other comprehensive income.

### General

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

### Merger, Acquisition and Divestiture Activity

On January 23, 2009, the Company completed the sale of its trust product line. There was no gain or loss recorded on this transaction, other than a \$0.2 million impairment of related goodwill.

On June 30, 2010, the Company completed the sale of its Effingham branch to Washington Savings Bank headquartered in Effingham, Illinois. Washington Savings Bank assumed approximately \$19.5 million in deposits and acquired \$5.9 million in loans. The net gain on the sale was \$1.2 million.

### Results of Operations

#### Net Income

2010 compared to 2009. Net loss equaled \$65.8 million or (\$11.20) per diluted share for the year ended December 31, 2010 as compared to a net loss of \$38.1 million or (\$6.61) per diluted share for the year ended December 31, 2009.

The Company's annual results for 2010 were adversely impacted by a \$34.6 million provision for loan losses, a \$30.3 million deferred tax valuation allowance taken in the third and fourth quarter, \$5.0 million non-cash impairment charges primarily related to trust-preferred collateralized debt obligations ("CDO") and \$15.9 million of goodwill impairment. These factors were largely reflective of continued deterioration of general economic conditions, primarily driven by the deterioration of the real estate markets and continued volatility in the CDO markets experienced during 2010.

2009 compared to 2008. Net loss equaled \$38.1 million or (\$6.61) per diluted share for the year ended December 31, 2009 as compared to net income of \$6.4 million or \$1.02 per diluted share for the year ended December 31, 2008.

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The Company's annual results for 2009 were adversely impacted by a \$52.0 million provision for loan losses, an \$8.5 million goodwill impairment charge taken in the second quarter and \$12.6 million non-cash impairment charges primarily related to CDOs.

#### Net Interest Income/ Margin

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

2010 compared to 2009. Net interest income, on a tax equivalent basis, decreased \$8.3 million from \$39.5 million earned during the full year 2009 to \$31.2 million for the full year 2010. This was the result of a decrease in interest income more than offsetting a decrease in interest expense.

Tax-equivalent interest income declined \$14.6 million as compared to 2009. A \$118.9 million decrease in interest-earning assets reduced interest income by \$5.9 million. The decrease in interest-earning assets was largely due to a reduction in loan growth related to strategic initiatives to reduce balance sheet risk and there being fewer qualified borrowers in the market. A 76 basis point decline in the average yield on interest-earning assets reduced interest income by \$8.6 million as new loans were placed on nonaccrual status, the security portfolio had more coupon rates reset to historical lows and higher yielding securities were sold and replaced with lower yielding instruments.

Interest expense declined \$6.2 million as compared to 2009. A \$79.7 million decrease in interest-bearing liabilities reduced interest expense by \$1.7 million. The decrease in interest-bearing liabilities was largely due to strategic initiatives to reduce balance sheet risks by limiting loan growth and using the proceeds from loan payoffs to decrease high cost time deposits and FHLB advances. A 45 basis point decline in total funding costs reduced interest expense by \$4.5 million as the pricing on deposits, especially time deposits, lagged the sharp decline in rates experienced in 2008.

The net interest margin decreased 41 basis points to 2.85% for the year ended December 31, 2010 from 3.26% during the same period in 2009. The Company's margin has been under pressure primarily due to the cost of retaining surplus liquidity, average loan volume decline, higher premium amortization due to increased prepayments and lower coupon income with adjustable resets in the security portfolio and the impact of nonaccrual loan interest reversals. Additionally, the loan portfolio purchase accounting adjustments that were accreted into interest income related to the Company's 2006 merger expired in the first quarter of 2010. Positively impacting the margin was increased utilization of interest rate floors on a majority of variable rate loans and a reduction in the Company's cost of interest-bearing liabilities due to maturity of higher rate time deposits and the decline in market interest rates. Due largely to the protracted economic downturn, the carrying cost of nonaccrual loans and the Company's interest rate sensitivity, the margin will likely remain under pressure throughout 2011.

2009 compared to 2008. Net interest income, on a tax equivalent basis, decreased \$1.1 million from \$40.6 million earned during the full year 2008 to \$39.5 million for the full year 2009. This was the result of a decrease in interest income more than offsetting a decrease in interest expense.

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Tax-equivalent interest income declined \$10.5 million as compared to 2008. An \$11.1 million decrease in interest-earning assets reduced interest income by \$0.7 million. The decrease in interest-earning assets was largely due to a reduction in loan growth related to strategic initiatives to reduce balance sheet risk and there being fewer qualified borrowers in the market. An 81 basis point decline in the average yield on interest-earning assets reduced interest income by \$9.8 million as new loans were placed on nonaccrual status and the variable rate portion of our loan and security portfolios adjusted to rate decreases that occurred in 2008.

Interest expense declined \$9.4 million as compared to 2008. A \$21.8 million decrease in interest-bearing liabilities reduced interest expense by \$0.7 million. The decrease in interest-bearing liabilities was largely due to strategic initiatives to reduce balance sheet risks by limiting loan growth and using growth from in-market deposits and the proceeds from loan payoffs to decrease brokered CD and FHLB advances borrowing levels. An 80 basis point decline in total funding costs reduced interest expense by \$8.7 million as the pricing on deposits lagged the sharp decline in rates experienced in 2008.

The net interest margin decreased 6 basis points to 3.26% for the year ended December 31, 2009 from 3.32% during the same period in 2008. The Company's margin has been under pressure primarily due to the cost of increasing liquidity, average loan volume declines, the cost of carrying higher nonaccrual loans and the impact of nonaccrual loan interest reversals. Our net interest margin was positively impacted by a decrease in the cost of funds.



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AVERAGE BALANCE SHEET  
AND ANALYSIS OF NET INTEREST INCOME

	For the Years Ended December 31,								
	2010 Average Balance	2010 Interest Income/ Expense	Average Rate	2009 Average Balance	2009 Interest Income/ Expense	Average Rate	2008 Average Balance	2008 Interest Income/ Expense	Average Rate
<b>ASSETS</b>									
<b>Interest-earning assets</b>									
Interest-earning deposits	\$4,108	\$74	1.80	% \$2,755	\$48	1.76	% \$2,891	\$13	0.45
<b>Securities</b>									
Taxable	251,127	5,916	2.36	217,097	8,638	3.98	184,887	8,953	4.84
Non-taxable	30,253	1,594	5.27	35,540	1,946	5.48	38,843	2,208	5.68
Total securities (tax equivalent)	281,380	7,510	2.67	252,637	10,584	4.19	223,730	11,161	4.99
Federal funds sold	2,045	38	1.88	620	32	5.18	3,187	93	2.92
<b>Loans</b>									
Commercial	135,848	7,904	5.82	151,821	8,869	5.84	191,578	11,965	6.25
Real estate	664,663	33,606	5.06	797,431	43,992	5.52	791,033	50,630	6.40
Installment and other	3,741	342	9.15	5,431	499	9.18	9,413	636	6.76
Gross loans (tax equivalent)	804,252	41,852	5.20	954,683	53,360	5.59	992,024	63,231	6.37
Total interest-earnings assets	1,091,785	49,474	4.53	1,210,695	64,024	5.29	1,221,832	74,498	6.10
<b>Noninterest-earning assets</b>									
Cash and cash equivalents	51,631			44,315			28,415		
Premises and equipment, net	27,874			31,225			33,992		
Other assets	65,576			64,410			69,919		
Total non-interest-earning assets	145,081			139,950			132,326		
Total assets	\$1,236,866			\$1,350,645			\$1,354,158		

**LIABILITIES AND  
STOCKHOLDERS'  
EQUITY**
**Interest-bearing  
liabilities**

NOW accounts	98,535	308	0.31	%	103,928	611	0.59	%	105,800	1,211	1.14
Money market accounts	131,173	1,215	0.93		145,870	2,125	1.46		155,001	4,083	2.63
Savings deposits	93,207	179	0.19		89,315	240	0.27		87,615	319	0.36
Time \$100,000 and over	214,215	4,930	2.30		237,912	6,195	2.60		216,112	7,945	3.68
Other time deposits	350,216	7,937	2.27		363,356	11,383	3.13		343,456	13,997	4.08
Federal funds purchased and repurchase agreements	13,512	45	0.34		28,670	148	0.52		42,148	760	1.80
Advances from FHLB	77,031	2,265	2.94		87,547	2,296	2.62		119,800	3,279	2.74
Notes payable and subordinated debentures	31,609	1,437	4.49		32,628	1,564	4.74		41,077	2,350	5.72
Total interest-bearing liabilities	1,009,498	18,316	1.81		1,089,226	24,562	2.26		1,111,009	33,944	3.06

**Noninterest-bearing  
liabilities**

Noninterest-bearing deposits	115,111				113,533				114,994		
Other liabilities	12,705				10,926				10,545		
Total noninterest-bearing liabilities	127,816				124,459				125,539		
Stockholders' equity	99,552				136,960				117,610		

**Total liabilities and  
stockholders' equity**

	\$1,236,866				\$1,350,645				\$1,354,158		
Net interest income (tax equivalent)		\$31,158				\$39,462				\$40,554	
Net interest income (tax equivalent) to total earning assets			2.85	%			3.26	%			3.32
Interest-bearing liabilities to earning assets	92.46	%			89.97	%			90.93	%	

(1) Average balance and average rate on securities classified as available-for-sale are 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 34.00%.

- (3) Nonaccrual loans are included in the average balances.
- (4) Overdraft loans are excluded in the average balances.

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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 reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

RATE/VOLUME ANALYSIS OF  
NET INTEREST INCOME

	For the Years Ended December 31, 2010 Compared to 2009			2009 Compared to 2008		
	Volume	Change Due to Rate	Net	Volume	Change Due to Rate	Net
<b>Interest-income:</b>						
<b>Interest-earning</b>						
deposits	\$ 25	\$ 1	\$ 26	\$ 1	\$ 34	\$ 35
<b>Investment securities:</b>						
Taxable	1,741	(4,463 )	(2,722 )	1,515	(1,830 )	(315 )
Non-taxable	(270 )	(82 )	(352 )	(180 )	(82 )	(262 )
Federal funds sold	39	(33 )	6	(43 )	(18 )	(61 )
Loans	(7,458 )	(4,050 )	(11,508 )	(1,966 )	(7,905 )	(9,871 )
Total interest income	\$ (5,923 )	\$ (8,627 )	\$ (14,550 )	\$ (673 )	\$ (9,801 )	\$ (10,474 )
<b>Interest expense:</b>						
NOW accounts	(35 )	(268 )	(303 )	(49 )	(551 )	(600 )
Money market accounts	(219 )	(691 )	(910 )	(315 )	(1,643 )	(1,958 )
Savings deposits	8	(69 )	(61 )	2	(81 )	(79 )
Time, \$100,000 and over	(608 )	(657 )	(1,265 )	605	(2,355 )	(1,750 )
Other time deposits	(445 )	(3,001 )	(3,446 )	593	(3,207 )	(2,614 )
Federal funds purchased and repurchase agreements	(69 )	(34 )	(103 )	(222 )	(390 )	(612 )
Advances from FHLB	(293 )	262	(31 )	(859 )	(124 )	(983 )
Notes payable	(42 )	(85 )	(127 )	(409 )	(377 )	(786 )
Total interest expense	\$ (1,703 )	\$ (4,543 )	\$ (6,246 )	\$ (654 )	\$ (8,728 )	\$ (9,382 )
Net interest income	\$ (4,220 )	\$ (4,084 )	\$ (8,304 )	\$ (19 )	\$ (1,073 )	\$ (1,092 )

Provision for Loan Losses

The amount of the provision for loan losses is based on management's evaluations of the loan portfolio, with particular attention directed toward nonperforming, impaired and other potential problem loans. During these evaluations,

consideration is also given to such factors as management's evaluation of specific loans, the level and composition of impaired loans, other nonperforming loans, other identified potential problem loans, historical loss experience, results of examinations by regulatory agencies, results of the independent asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guarantees, concentrations of credits, and various other factors, including concentration of credit risk in various industries and current economic conditions.

2010 compared to 2009. The 2010 provision for loan losses charged to operating expense totaled \$34.6 million, a decrease of \$17.4 million in comparison to \$52.0 million recorded in the 2009 period. The provision level for 2010 was driven by the following factors:

- sustained level of nonperforming loans and new credits that migrated to nonperforming status that have required current specific allocation estimates;
- elevated charge-offs of previously accrued specific allocation that impacts historical loss levels;
- elevated past due loans;
- weakening guarantor positions due to economic conditions;
- continued deteriorating collateral values, reflecting the impact of the adverse economic climate on the Company's borrowers.

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Management continues to update collateral values and evaluate the level of specific allocations for impaired loans. As impaired loans have moved through the liquidation process, many of the previously established specific allocations have been charged off. Foreclosure of impaired loans has resulted in an increase in the level of other real estate owned as foreclosed properties have been especially difficult to move in the current economic environment.

Management continues to diligently monitor the loan portfolio, paying particular attention to borrowers with land development, residential and commercial real estate, and commercial development exposures. Many of these relationships continued to show duress due to the ongoing economic downturn being experienced for this industry that existed throughout 2009 and 2010. Should the economic climate deteriorate from current levels, more borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies will rise requiring further increases in the provision for loan losses.

2009 compared to 2008. The 2009 provision for loan losses charged to operating expense totaled \$52.0 million, an increase of \$43.9 million in comparison to \$8.1 million recorded in the 2008 period. The increase to the 2009 provision for loan loss was driven by the following factors:

- increase in nonperforming and action list loans;
- increase in charge-offs and losses which impacts historical loss levels;
- deteriorating collateral values, reflecting the impact of the adverse economic climate on the Company's borrowers;
- guarantor positions collapsing due to economic conditions; and
- increase in the level of past due loans.

As the status of many collateral dependent loans deteriorated throughout 2009, management monitored these credits to analyze the adequacy of the cash flows to support the debt levels and obtained updated appraisals to determine the collateral's fair value for impairment analysis. Based on our analysis, management increased its specific reserves for impaired loans by \$44.5 million and updated the historical loss and qualitative factors by \$7.5 million to reflect trends for losses being experienced.

#### Noninterest Income

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

	Years Ended December 31,		
	2010	2009	2008
Service charges	\$5,264	\$6,421	\$7,303
Mortgage banking income	1,807	2,303	1,525
Electronic banking services	2,057	1,923	1,807
Bank-owned life insurance	1,038	1,048	1,022
Other income	944	1,065	1,951
Subtotal recurring noninterest income	11,110	12,760	13,608

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Securities gains (losses)	2,701	251	848
Net impairment on securities	(5,021 )	(12,606 )	(2,735 )
Gain on sale of OREO	333	178	379
Gain on sale of other assets	1,695	128	1,309
Total noninterest income	\$10,818	\$711	\$13,409

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2010 compared to 2009. Total noninterest income totaled \$10.8 million for the year ended December 31, 2010, as compared to \$0.7 million for the same period in 2009. This represented an increase of \$10.1 million in 2010 over the prior period.

Included in 2010 and 2009 noninterest income results were securities gains, credit impairment charges on CDO securities, and gains related to the sale of OREO and other assets, which includes the 2010 gain on sale of the Effingham branch. Excluding these items from both periods, recurring noninterest income declined \$1.7 million or 13.28% in 2010 versus 2009 levels. This decrease was primarily due to a \$1.1 million decrease related to reduced consumer spending and its impact on NSF and overdraft fees. Also contributing was a \$0.5 million decrease in mortgage banking income due to lower production.

2009 compared to 2008. Total noninterest income totaled \$0.7 million for the year ended December 31, 2009, as compared to \$13.4 million for the same period in 2008. This represented a decrease of \$12.7 million or 94.78% in 2009 over the prior period.

Included in 2009 and 2008 noninterest income results were securities gains, credit impairment charges on CDO securities, and gains related to the sale of OREO and other assets. Excluding these items, recurring noninterest income declined \$0.8 million or 5.88% in 2009 versus 2008 levels. The decrease was primarily due to a \$0.9 million decrease related to reduced consumer spending and its impact on NSF and overdraft fees. Also contributing was a \$0.8 million decrease due to the sale of the asset management and brokerage business lines which were finalized in 2008. These negative variances were partially offset by a \$0.8 million volume related increase in revenue generated from the mortgage banking division.

#### Noninterest Expense

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

	Years Ended December 31,		
	2010	2009	2008
Salaries and employee benefits	\$ 14,549	\$ 16,195	\$ 16,283
Occupancy expense, net	3,200	3,364	3,598
Furniture and equipment expenses	2,152	2,303	2,673
Marketing	350	783	1,228
Supplies and printing	399	458	470
Telephone	782	838	772
Data processing	1,567	1,510	1,309
FDIC insurance	3,372	2,780	184
Loan processing and collection costs	2,434	1,550	809
Amortization of intangible assets	1,258	1,537	1,883
Other expenses	5,854	5,867	5,777
Subtotal recurring noninterest expenses	35,917	37,185	34,986
Goodwill impairment	15,880	8,451	724



OREO valuation adjustments	4,092	1,022	35
Total noninterest expense	\$55,889	\$46,658	\$35,745

2010 compared to 2009. Noninterest expense totaled \$55.9 million for the year ended December 31, 2010, as compared to \$46.7 million for the same period in 2009. This represented an increase of \$9.2 million or 19.70% in 2010 from 2009.

Included in 2010 and 2009 noninterest expense results were OREO valuation adjustments and goodwill impairment charges. Excluding these items, recurring noninterest expense declined \$1.3 million or 3.49% in 2010 versus 2009 levels. The decrease was largely due to management's initiatives to reduce costs with regard to salaries and employee benefits, occupancy expense, furniture and equipment costs, marketing expense and other discretionary items. These savings were partially offset by increasing loan remediation costs, including collection expenses on nonperforming loans and general expenses associated with maintaining other real estate owned.

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If economic conditions remain under pressure and the Company's regulatory action continues in effect, FDIC insurance premiums and costs to remediate loans and collect on nonperforming loans, in addition to expenses associated with maintaining foreclosed real estate, will remain higher than normal.

2009 compared to 2008. Noninterest expense totaled \$46.7 million for the year ended December 31, 2009, as compared to \$35.7 million for the same period in 2008. This represented an increase of \$11.0 million or 30.81% in 2009 from 2008.

The increase was primarily related to the recognition of an \$8.5 million goodwill impairment charge taken during the second quarter of 2009. The change was largely a result of increasing loan remediation costs, including collection expenses on nonperforming loans, general expenses associated with maintaining other real estate owned and a valuation adjustment taken on one property held in other real estate owned. Also contributing to the change was an industry-wide increase in FDIC insurance premiums. These increases were partially offset by management's initiatives to reduce costs with regard to salaries and employee benefits, occupancy expense, furniture and equipment costs and marketing expense.

#### Applicable Income Taxes.

Income tax expense (benefit) 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 each of the past three years:

	Years Ended December 31,		
	2010	2009	2008
Income (loss) before income taxes	\$ (49,143 )	\$ (59,313 )	\$ 9,156
Applicable income tax expense (benefit)	16,660	(21,234 )	2,766
Effective tax rates	(33.90 %)	35.80 %	30.21 %

The Company recorded 2010 income tax expense of \$16.7 million, which included a deferred tax valuation allowance of \$30.3 million. Excluding this valuation allowance, a tax benefit of \$(13.6) million was recorded as a result of the pre-tax loss of \$49.1 million. It should be noted that the entire goodwill impairment charge of \$15.9 million was not deductible for income tax purposes. Excluding the tax valuation adjustment and the goodwill impairment, the 2010 effective tax rate would have approximated 41.06%, which equals the tax benefit at the combined statutory rate of 38.62% and the benefit realized from the tax-exempt items.

The Company recorded a 2009 income tax benefit of \$(21.2) million, as a result of the pre-tax loss of \$(59.3) million. It should be noted that \$6.5 million of the goodwill impairment charge of \$8.5 million was not deductible for income tax purposes in the 2009 tax benefit number. Excluding this item, the effective tax rate would have been approximately 40.24% in 2009, which equals the tax benefit at the combined statutory rate of 38.62% and the benefit realized from the tax-exempt items.

In 2008, the Company's effective tax rate was lower than statutory rates due to several factors. First, the Company derives interest income from municipal securities and loans, which are exempt from federal tax and certain U.S. government agency securities, which are exempt from state tax. Second, the Company derives income from bank owned life insurance policies, which is exempt from federal and state tax. Finally, state income taxes are recorded net of the federal tax benefit, which lowers the combined effective tax rate.

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### Preferred Stock Dividends

During the second quarter of 2009, the Company suspended cash dividends on Series A, Series B and Series C preferred stocks.

For 2010, the Company accrued, but did not pay, \$1.9 million in preferred stock dividends. For 2009, the Company accrued \$1.1 million and paid \$0.7 million in preferred stock dividends. For 2008, the Company paid \$0.2 million in preferred stock dividends. The increase in 2009 accrued preferred dividends was due to the issuance of the Series C fixed rate, cumulative perpetual preferred stock (aggregate liquidation preference of \$32.7 million) for the Company's participation in the U. S. Department of Treasury's Capital Purchase Program.

### Earnings Review by Business Segment

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

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

See Note 22 of the Notes to Consolidated Financial Statements for the presentation of the condensed income statement and total assets for each Segment.

### Retail Segment

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

2010 compared to 2009. Retail generated a loss of \$12.5 million or 19.00% of total segment net loss in 2010 as compared to net loss of \$5.4 million or 14.17% of total segment net loss in 2009. Retail assets were \$191.4 million at

December 31, 2010 and represented 17.32% of total consolidated assets. This compared to \$223.4 million or 17.02% at December 31, 2009.

For 2010, net income remained weak due to lower interest income and the end of purchase accounting market-to-market amortization. Further affecting the segment profitability was tax expense related to the deferred tax valuation allowances that were taken during the year and elevated levels of net allocations due to the allocation of the goodwill impairment charge. The decline in the retail assets was primarily related to the decline in the held residential mortgages portfolio.

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2009 compared to 2008. Retail generated a loss of \$5.4 million or 14.17% of total segment net loss in 2009 as compared to income of \$0.7 million or 10.94% of total segment net income in 2008. Retail assets were \$223.4 million at December 31, 2009 and represented 17.02% of total consolidated assets. This compared to \$255.0 million or 18.19% at December 31, 2008.

For 2009, net income decreased due to weaker interest income, lower revenues on electronic banking services, lower income on service charges, lower gain on sale of other assets due to the branch sales which occurred in 2008 and lower miscellaneous revenue. Provision for loan losses was higher in 2009 due to economic conditions facing our customers. Net allocations were higher in 2009 due to the allocation of the goodwill impairment charge and increased costs to originate and service loans. Offsetting these negative variances slightly were lower noninterest expenses for most categories except payroll and benefits, OREO costs and loan related costs. Additionally, there was a tax benefit in 2009 generated from the operating loss which further offset the negative variances. The decline in the retail assets was primarily related to the decline in the held residential mortgages portfolio.

#### Commercial Segment

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

2010 compared to 2009. Commercial generated a loss of \$48.1 million or 73.10% of total segment net loss in 2010 as compared to a loss of \$25.3 million or 66.40% of total segment net loss in 2009. Commercial assets were \$576.2 million at December 31, 2010 and represented 52.14% of total consolidated assets. This compared to \$693.1 million or 52.80% at December 31, 2009.

Net interest income for 2010 decreased to \$25.3 million from \$28.0 million in 2009 due to a reduction in the loan portfolio. This was positively offset by lower levels of provision of \$34.6 million which combined with stronger noninterest income than 2009 levels. These positive variances from 2009 were overshadowed by significant OREO valuation adjustments taken in 2010. Further affecting the segment profitability was tax expense related to deferred tax valuation allowances that were taken during the year and net allocations were higher in 2010 due to the allocation of the goodwill impairment charge. The decline in the assets was due primarily to strategic reduction initiatives designed to reduce balance sheet risks.

2009 compared to 2008. Commercial generated a loss of \$25.3 million or 66.40% of total segment net loss in 2009 as compared to income of \$4.0 million or 62.50% of total segment net income in 2008. Commercial assets were \$693.1 million at December 31, 2009 and represented 52.80% of total consolidated assets. This compared to \$803.1 million or 57.29% at December 31, 2008.

Net interest income for 2009 increased to \$28.0 million from \$26.0 million in 2008. This was offset by elevated levels of provision of \$51.4 million which combined with elevated levels of allocations drove the earnings significantly lower than 2008 levels. Furthermore, other income levels are lower and other expense levels are higher than 2008 levels. These negative variances were slightly offset by an income tax benefit generated by the operating loss. The large increase for the provision for loan loss recorded in 2009 was the result of the continued deterioration of the economic conditions impacting collateral values on collateral dependent loans and the cash flows on these deteriorated

as well. Additionally, there was a large valuation adjustment on OREO property to properly value it as of December 31, 2009. Net allocations were higher in 2009 due to the allocation of the goodwill impairment charge and increased costs to originate and service loans. The decline in the assets was due primarily to strategic reduction initiatives designed to reduce balance sheet risks.

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### Treasury Segment

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

2010 compared to 2009. The Treasury Segment net loss was \$5.2 million or 7.90% of total segment net loss in 2010 as compared to net loss of \$7.3 million or 19.16% of total segment net income for the same period in 2009. Treasury assets were \$218.0 million at December 31, 2010, or 19.72% of consolidated assets. This compares to \$277.4 million or 21.13% at December 31, 2009.

Treasury's net income for 2010 was impacted by \$5.0 million in non-cash impairment charges related to CDO securities, tax expense related to the deferred tax valuation allowances that were taken during the year and elevated levels of net allocations due to the allocation of the goodwill impairment charge. This negative variance is also augmented by lower net interest due largely to higher yielding securities being sold or having their coupon rates reset to historical rate lows during the period. These negative variances were partially offset by gains of \$2.7 million being realized from the sale of securities.

In 2010, total Treasury assets decreased due to strategic initiatives to supplement capital by realizing gains in the security portfolio.

2009 compared to 2008. The Treasury Segment net loss was \$7.3 million or 19.16% of total segment net loss in 2009 as compared to net income of \$1.8 million or 28.13% of total segment net income for the same period in 2008. Treasury assets were \$277.4 million at December 31, 2009, or 21.13% of consolidated assets. This compares to \$277.6 million or 19.80% at December 31, 2008.

Treasury's net income for 2009 was impacted by \$12.6 million in non-cash impairment charges related to CDO securities. This negative variance is also augmented by lower net interest income, higher other expenses, and higher allocated expenses. Net allocations were higher in 2009 due to the allocation of the goodwill impairment charge and increased costs to originate and service loans. An income tax benefit generated by the 2009 operating loss slightly offset these negative variances.

In 2009, the assets were increased in the latter part of the year to strengthen liquidity positions and to generate interest income.

### Interest Rate Sensitivity Management

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



that are beyond the control of the Bank, including general economic conditions and the policies of various governmental and regulatory authorities.

The Company measures its overall interest rate sensitivity through a multiple scenario analysis. The primary analysis measures the change in net interest income resulting from instantaneous hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 100 to 300 basis point increase or decrease in market interest rates. Due to the current rate environment, this analysis was done in 2010 using a 50 basis point decrease in rates versus the normal 100 to 300 basis point decrease. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions including parallel shifts of market interest rates, loan and security prepayments, and deposit run-off rates and should not be relied upon as indicative of actual results. Actual values may differ from those projections set forth above, should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate actions the Company may undertake in response to changes in interest rates. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements.

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The tables below present the Company's projected changes in net interest income for 2010 and 2009 for the various rate shock levels.

	Change in Net Interest Income Over One Year Horizon					
	December 31, 2010			December 31, 2009		
		Change			Change	
	\$		%	\$		%
+300 bp	\$ (570 )	(1.82 )%		\$ 224	0.61 %	
+200 bp	(1,637 )	(5.23 )		(1,261 )	(3.42 )	
+100 bp	(1,376 )	(4.40 )		(962 )	(2.61 )	
+ 50 bp	(701 )	(2.24 )		(462 )	(1.25 )	
Base	—	—		—	—	
- 50 bp	568	1.82		1,338	3.63	

Based on the Company's model at December 31, 2010, the effect of an immediate 200 basis point increase in interest rates would decrease the Company's net interest income by 5.23% or approximately \$1.6 million. The effect of an immediate 50 basis point decrease in rates would increase the Company's net interest income by \$0.6 million or 1.82%.

Results for the 2010 net interest income analysis were impacted by the strategy to build the investment portfolio early in the year for enhanced secondary liquidity, but later reduced as total footings declined in order to enhance the net interest margin and support capital. During late 2008 and 2009, management instituted new underwriting standards that incorporated interest rate floors into the terms for many of its commercial loan relationships in order to maximize the net interest margin during the time when market interest rates are at extremely low levels. While these floors have held income to a higher level in this low rate environment, they will also make it necessary for rates to climb to somewhat higher levels before the yield of the adjustable rate assets move above the floors and add significantly to interest income. An increase of 300 basis points in the interest rates enables the loan yields to move up from the rate floors and respond to rising market rates similar to the increase in deposit costs.

Management also continued to extend the duration of its borrowing in 2010 to lock in lower rates over the next three to five year period. While this had the effect of increasing near-term funding costs, it served to lock funding over the next several years against the possibility of lack of sufficient funding or significantly higher funding costs should the economy improve and interest rates move significantly higher. This rate lock tends to mitigate the negative impact of the lack of response of loans at floors and other assets that would not immediately benefit from rising interest rates.

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## Financial Condition

### Loans and Asset Quality

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

Outstanding loans totaled \$721.9 million at December 31, 2010 compared to \$885.1 million at December 31, 2009, representing a decrease of \$163.2 million or 18.44%. Excluding net charge-offs of \$44.0 million and transfers to OREO of \$17.5 million, loans decreased \$101.7 million primarily due to a combination of normal attrition, pay-downs and strategic initiatives to reduce balance sheet risk. Due to economic conditions, we have also experienced a decrease in the number of loan applications as many borrowers are trying to reduce their debt. Construction lending, which is inherently more risky in the current economic climate, decreased \$56.2 million or 43.80% since year end 2009. Approximately \$27.1 million, or 48.22% of this decrease, was related to charge-offs.

As of December 31, 2010 and 2009, commitments of the Bank under standby letters of credit and unused lines of credit totaled approximately \$122.7 million and \$154.1 million respectively.

The following table describes the composition of loans by major categories outstanding:

### LOAN PORTFOLIO

	Aggregate Principal Amount December 31,				
	2010	2009	2008	2007	2006
Commercial	\$87,226	\$111,105	\$125,484	\$150,809	\$122,101
Agricultural & AGRE	44,289	39,820	52,606	53,097	57,221
Construction, land & development	72,078	128,309	164,564	158,491	126,098
Commercial RE	342,208	389,534	401,121	328,742	248,432
1-4 family mortgages	172,666	211,695	254,566	255,775	270,251
Consumer	3,404	4,632	6,049	10,371	12,842
Total loans	\$721,871	\$885,095	\$1,004,390	\$957,285	\$836,944
Allowance for loan losses	(31,511 )	(40,909 )	(15,018 )	(10,755 )	(10,835 )
Loans, net	\$690,360	\$844,186	\$989,372	\$946,530	\$826,109

	Percentage of Total Loan Portfolio December 31,									
	2010		2009		2008		2007		2006	
Commercial	12.08	%	12.55	%	12.49	%	15.75	%	14.59	%

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Agricultural & AGRE	6.14	4.50	5.24	5.55	6.84
Construction, land & development	9.98	14.50	16.38	16.56	15.07
Commercial RE	47.41	44.01	39.94	34.34	29.68
1-4 family mortgages	23.92	23.92	25.35	26.72	32.29
Consumer	0.47	0.52	0.60	1.08	1.53
Total loans	100.00	100.00	100.00	100.00	100.00

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Stated loan maturities (including rate loans reset to market interest rates) of the total loan portfolio, net of unearned income, at December 31, 2010 were as follows:

## STATED LOAN MATURITIES (1)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
Commercial	\$47,151	\$34,822	\$5,253	\$87,226
Agricultural & AGRE	19,849	13,063	11,377	44,289
Construction, land & development	59,673	12,031	374	72,078
Commercial RE	155,790	137,840	48,578	342,208
1-4 family mortgages	33,195	38,313	101,158	172,666
Consumer	996	2,260	148	3,404
Total	\$316,654	\$238,329	\$166,888	\$721,871

(1) Maturities based upon contractual maturity dates

The maturities presented above are based upon contractual maturities. Many of these loans are made on a short-term basis with the possibility of renewal at time of maturity. All loans, however, are reviewed on a continuous basis for creditworthiness.

Rate sensitivities of the total loan portfolio, net of unearned income, at December 31, 2010 were as follows:

## LOAN REPRICING

	Within 1 Year	1 to 5 Years	After 5 Years	Total
Fixed rate	\$145,353	\$156,593	\$45,030	\$346,976
Variable rate	108,984	75,062	121,218	305,264
Nonperforming loans	62,317	6,674	640	69,631
Total	\$316,654	\$238,329	\$166,888	\$721,871

## Nonperforming Assets

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

days.

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

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

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

The following table sets forth a summary of nonperforming assets:

	December 31,									
	2010		2009		2008		2007		2006	
Nonaccrual loans	\$	64,600	\$	80,121	\$	10,318	\$	4,090	\$	11,759
Loans 90 days past due and still accruing interest		58		—		—		—		—
Troubled debt restructure		5,332		743		—		—		—
Total nonperforming loans	\$	69,990	\$	80,864	\$	10,318	\$	4,090	\$	11,759
Other real estate owned		25,564		16,223		12,723		2,937		2,136
Total nonperforming assets	\$	95,554	\$	97,087	\$	23,041	\$	7,027	\$	13,895
Nonperforming loans to total end of period loans		9.70 %		9.14 %		1.03 %		0.43 %		1.40 %
Nonperforming assets to total end of period loans		13.24		10.97		2.29		0.73		1.66
Nonperforming assets to total end of period assets		8.65		7.40		1.64		0.51		1.08

The Company's level of nonperforming assets continues to be high as it, and many others in the banking industry, copes with one of the most severe recessions in decades. The deterioration in the overall economy and real estate markets in particular has negatively impacted the Company's lending portfolio. Total nonperforming assets were \$95.6 million, or 8.65% of total assets, at December 31, 2010. This included \$5.3 million in troubled debt restructures \$25.6 million of foreclosed assets and repossessed real estate, \$0.06 million in loans 90 days past dues and still accruing, and \$64.6 million of nonaccrual loans. Approximately 88.36% of total nonaccrual loans at December 31, 2010 were concentrated in land development, construction and commercial real estate credits. Additionally, 54.45% of total nonaccrual loans represented loans to 10 borrowers.

#### Nonperforming Loans

Nonperforming loans (nonaccrual, 90 days past due and troubled debt restructures) decreased \$10.9 million from December 31, 2009 largely due to the following factors:

- returning improved loan relationships to accrual status;
- transferring foreclosed or repossessed real estate from the loan portfolio to OREO;

partially charging-off collateral dependent real estate loans down to current fair market value of the collateral; and liquidations and payoffs via workout agreements with borrowers.

The level of nonperforming loans to end of period loans was 9.70% as of December 31, 2010 as compared to 12.44% as of September 30, 2010 and 9.14% as of December 31, 2009. As a result of the decrease in the allowance for loan losses, the allowance to nonperforming loan coverage ratio decreased to 45.02% in the fourth quarter from 50.59% during the fourth quarter 2009.

#### Other Real Estate Owned

Other real estate owned (OREO) was \$25.6 million as of December 31, 2010 compared to \$16.2 million as of December 31, 2009. During 2010, the Company transferred \$17.5 million of foreclosed or repossessed real estate from the loan portfolio. OREO properties with a carrying value of \$16.9 million were written down to their fair value of \$12.8 million, resulting in a charge to earnings of \$4.1 million. This compares to 2009 when OREO properties with a carrying value of \$17.3 million were written down to their fair value of \$16.2 million, which resulted in a charge to earnings of \$1.1 million during the year.



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The following table sets forth a summary of other real estate owned and other collateral acquired at December 31, 2010 and 2009:

	2010		2009	
	Number Of Parcels	Net Book Carrying Value	Number Of Parcels	Net Book Carrying Value
Developed property	46	\$10,112	14	\$4,081
Vacant land or unsold lots	24	15,452	7	12,142
Total other real estate owned	70	\$25,564	21	\$16,223

#### Other Potential Problem Loans

The Company has other potential problem loans that are currently performing, but where some concerns exist regarding the nature of the borrowers' projects in our current economic environment. Throughout 2010, management identified \$56.5 million of loans that are currently performing but due to the economic environment facing these borrowers were classified by management as impaired. Impaired loans that are performing account for 44.85% of the loans deemed impaired during 2010. Excluding nonperforming loans and loans that management has classified as impaired, there are other potential problem loans that totaled \$6.7 million at December 31, 2010 as compared to \$23.4 million at December 31, 2009. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny and closer monitoring is prudent under the circumstances. Such classifications relate to specific concerns for each individual borrower and do not relate to any concentration risk common to all loans in this group.

The Company proactively reviews loans for potential impairment regardless of the payment or performance status. This approach results in some relationships being classified as impaired but still performing.

#### Construction Lending Concentration

A strategy to reduce exposure to construction lending that began in 2008 has seen this category fall 60.08% from its highest point at \$180.6 million as of June 30, 2008 down to \$72.1 million as of December 31, 2010. Construction and land development loans now represent 9.98% of the total loan portfolio, down from 14.50% recorded as of December 31, 2009.

#### Allowance for Loan Losses

At December 31, 2010, the allowance for loan losses was \$31.5 million, or 4.37% of total loans, as compared to \$40.9 million, or 4.62% of total loans, at December 31, 2009. The Company recorded a provision of \$34.6 million to the allowance for loan losses in 2010 largely due to the following factors:

- sustained level of nonperforming loans and new credits that migrated to nonperforming status that have required current specific allocation estimates;
- elevated charge-offs of previously accrued specific allocation that impacts historical loss levels;
- elevated past due loans;

weakening guarantor positions due to economic conditions;  
continued deteriorating collateral values, reflecting the impact of the adverse economic climate on the Company's borrowers.

Net loan charge-offs for the year ended December 31, 2010 were \$44.0 million, or 5.47% of average loans, compared with \$26.2 million, or 2.74% of average loans, in the same period of 2009. Loan charge-offs during 2010 were largely influenced by the credit performance of the Company's land development, construction and commercial real estate portfolio. These charge-offs reflect management's continuing efforts to align the carrying value of these assets with the value of underlying collateral based upon more aggressive disposition strategies and recognizing falling property values. Because these loans are collateralized by real estate, losses occur more frequently when property values are declining and borrowers are losing equity in the underlying collateral.

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The level of the provision for loan losses recognized was 78.64% of net loan charge offs during the full year 2010, compared to 198.47% in the same period of 2009. Management believes we are recognizing losses in our portfolio through charge-offs as credit developments warrant.

Of the \$31.5 million allowance for loan losses, \$29.8 million, or 94.60%, was allocated to real estate loans which is the segment of the loan portfolio under greatest duress. As the status of many of these collateral dependent real estate loans deteriorated throughout 2010, management monitored these credits to analyze the adequacy of the cash flows to support the debt levels and obtained updated appraisals to determine the collateral's fair value for impairment analysis.

Management continues to diligently monitor the loan portfolio, paying particular attention to borrowers with land development, residential and commercial real estate, and commercial development exposures. Many of these relationships continued to show duress due to the ongoing economic downturn being experienced for this industry that existed throughout 2010 and is projected to continue through much of 2011. Should the economic climate deteriorate from current levels, more borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies will rise requiring further increases in the provision for loan losses. Management believes that the allowance for loan losses at December 31, 2010 was adequate to absorb credit losses inherent in the loan portfolio.

The following tables present a detailed analysis of the Company's allowance for loan losses:

## ALLOWANCE FOR LOAN LOSSES

	December 31,				
	2010	2009	2008	2007	2006
Beginning balance	\$ 40,909	\$ 15,018	\$ 10,755	\$ 10,835	\$ 8,362
Charge-offs:					
Commercial	3,033	1,772	411	884	404
Agricultural & AGRE	618	49	3	1	13
Construction, land & development	27,147	19,841	1,841	212	45
Commercial RE	11,082	1,827	366	167	388
1-4 family mortgages	2,449	3,237	1,403	185	732
Consumer	80	78	82	118	102
Total charge-offs	\$ 44,409	\$ 26,804	\$ 4,106	\$ 1,567	\$ 1,684
Recoveries:					
Commercial	\$ 281	\$ 467	\$ 217	\$ 471	\$ 216
Agricultural & AGRE	3	27	4	3	2
Construction, land & development	38	—	—	—	76
Commercial RE	12	28	10	111	210
1-4 family mortgages	53	95	15	119	68
Consumer	24	29	41	108	93
Total recoveries	\$ 411	\$ 646	\$ 287	\$ 812	\$ 665
Net charge-offs	43,998	26,158	3,819	755	1,019

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Provision for loan losses	\$ 34,600	\$ 52,049	\$ 8,082	\$ 675	\$ (1,275 )
Increase due to merger	—	—	—	—	4,767
Ending balance	\$ 31,511	\$ 40,909	\$ 15,018	\$ 10,755	\$ 10,835
Period end total loans	\$ 721,871	\$ 885,095	\$ 1,004,390	\$ 957,285	\$ 836,944
Average loans	\$ 804,252	\$ 954,683	\$ 992,024	\$ 902,658	\$ 464,968

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## ALLOWANCE FOR LOAN LOSS RATIOS

	2010		2009		December 31, 2008		2007		2006	
Ratio of net charge-offs to average loans	5.47	%	2.74	%	0.38	%	0.08	%	0.22	%
Ratio of provision for loan losses to average loans	4.30		5.45		0.81		0.07		(0.27	)
Ratio of allowance for loan losses to ending total loans	4.37		4.62		1.50		1.12		1.29	
Ratio of allowance for loan losses to total nonperforming loans	45.02		50.59		145.55		262.96		92.14	

The following table sets forth an allocation of the allowance for loan losses among the various loan categories:

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES  
(Dollars in Thousands)

	December 31, 2010		2009		2008		2007		2006	
	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans
Commercial	\$1,634	12.08	% \$4,512	12.55	% \$2,554	12.49	% \$3,793	15.75	% \$4,733	14.59
Agricultural & AGRE	337	6.14	23	4.50	90	5.24	185	5.55	812	6.84
Construction, land & development	12,500	9.98	22,940	14.50	3,284	16.38	1,778	16.56	1,413	15.07
Commercial RE	13,721	47.41	8,529	44.01	8,004	39.94	3,689	34.34	2,783	29.68
1-4 family residential	3,273	23.92	4,872	23.92	986	25.35	1,113	26.72	787	32.29
Consumer	46	0.47	33	0.52	100	0.60	197	1.08	307	1.53
Total	\$31,511	100.00	% \$40,909	100.00	% \$15,018	100.00	% \$10,755	100.00	% \$10,835	100.00

## Securities Activities

The primary objective of the Company's \$229.9 million securities portfolio is to minimize interest rate risk, maintain sufficient liquidity, and maximize return. In managing the securities portfolio, the Company minimizes any credit risk and avoids investments in sophisticated and complex investment products. The portfolio includes several callable agency debentures, adjustable rate mortgage pass-throughs, municipal bonds and collateralized mortgage obligations.

Neither the Company nor the Bank hold any securities containing sub-prime mortgages or Fannie Mae or Freddie Mac equities.

The Company's financial planning anticipates income streams generated by the securities portfolio based on normal maturity and reinvestment. Securities classified as available-for-sale, carried at fair value, were \$219.5 million at December 31, 2010 compared to \$264.8 million at December 31, 2009. The Company does not have any securities classified as trading or held-to-maturity. The Company also holds \$10.5 million and \$10.7 million of Federal Reserve and Federal Home Loan Bank stock which are classified as restricted securities as of December 31, 2010 and December 31, 2009, respectively.

As of December 31, 2010, the Company held seven pooled trust preferred CDO securities involving 300 issuers with a total book value of \$8.6 million versus a balance of \$13.2 million at December 31, 2009. The decrease of \$4.6 million represents OTTI taken in 2010 as well as principal pay-downs which were slightly off-set by a marginal portion of capitalized interest. The investments in CDO securities receive principal and interest payments from several pools of subordinated capital debentures with each pool containing issuance by a minimum of 22 banks or, in a few instances, capital notes from insurance companies. An unrealized loss of approximately \$4.2 million associated with these securities has been recorded, on an after-tax basis, through stockholders' equity as a component of other comprehensive income.

Should the economic climate deteriorate from current levels, the underlying credits of the CDOs may experience repayment difficulty, and the level of deferrals and defaults could increase requiring additional impairment charges in future quarters.

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The following table describes the composition of securities by major category and maturity:

	2010		December 31, 2009				2008	
	Amount	% of	Amount	% of	Amount	% of		
		Portfolio		Portfolio			Portfolio	
Available-for-Sale								
U.S. government agencies	\$ 7,085	3.23 %	\$ 3,966	1.50 %	\$ 16,995	7.03 %		
States and political subdivisions	28,348	12.92	36,541	13.80	38,202	15.80		
U.S. government agency residential mortgage-back securities	147,846	67.36	198,183	74.85	143,378	59.27		
Collateralized mortgage obligations:								
Agency	20,735	9.45	3,261	1.23	6,367	2.63		
Private Label	4,936	2.25	11,165	4.22	13,637	5.64		
Equity securities	2,254	1.03	1,898	0.72	1,496	0.62		
Collateralized debt obligations:								
Single Issue	3,849	1.75	—	0.00	—	0.00		
Pooled	4,422	2.01	9,758	3.68	19,848	8.21		
Corporate	—	0.00	—	0.00	1,928	0.80		
Total	\$ 219,475	100.00 %	\$ 264,772	100.00 %	\$ 241,851	100.00 %		

The following table sets forth the contractual, callable or estimated maturities and yields of the debt securities portfolio as of December 31, 2010. Mortgage backed and collateralized mortgage obligation securities are included at estimated maturity.

#### MATURITY SCHEDULE

Maturing Period	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		Total Amount
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Available-for-Sale									
U.S. government agencies and corporations	\$ —	0.000%	\$ 3,996	2.508%	\$ 3,089	6.000%	\$ —	0.000%	\$ 7,085

States and political subdivisions (1)	12,864	5.406	6,747	5.714	4,391	5.717	4,346	5.908	28,348
U.S. government agency residential mortgage-back securities	22	4.653	201	5.135	815	2.855	146,808	2.475	147,846
Collateralized mortgage obligations:									
Agency	—	0.000	—	0.000	1,038	4.560	19,697	2.142	20,735
Private Label	—	0.000	—	0.000	—	0.000	4,936	5.462	4,936
Equity Securities	—	0.000	—	0.000	—	0.000	2,254	3.683	2,254
Collateralized debt obligations:									
Single Issue	—	0.000	—	0.000	—	0.000	3,849	5.849	3,849
Pooled	—	0.000	—	0.000	—	0.000	4,422	2.225	4,422
Total	\$ 12,886		\$ 10,944		\$ 9,333		\$ 186,312		\$ 219,475

(1) Rates on obligations of states and political subdivisions have been adjusted to tax equivalent yields using a 34.00% income tax rate

#### Deposit Activities

Deposits are attracted through the offering of a broad variety of deposit instruments, including checking accounts, money market accounts, regular savings accounts, term certificate accounts (including “jumbo” certificates in denominations of \$100,000 or more), and retirement savings plans. The Company’s average balance of total deposits was \$1.002 billion for 2010, representing a decrease of \$51.5 million or 4.89% compared with the average balance of total deposits for 2009 of \$1.054 billion.



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

AVERAGE DEPOSITS

	For the Years Ended December 31,									
	2010			2009				2008		
	Average Amount	% of Total	Average Rate Paid	Average Amount	% Of Total	Average Rate Paid	Average Amount	% of Total	Average Rate Paid	
Non-interest-bearing										
demand deposits	\$115,111	11.48 %	— %	\$113,533	10.77 %	— %	\$114,994	11.24 %	— %	
Savings accounts	93,207	9.30	0.19	89,315	8.47	0.27	87,615	8.56	0.36	
Interest-bearing										
demand deposits	229,708	22.91	0.66	249,798	23.71	1.10	260,801	25.50	2.03	
Time, less than \$100,000	350,216	34.94	2.27	363,356	34.48	3.13	343,456	33.57	4.08	
Time, \$100,000 or more	214,215	21.37	2.30	237,912	22.57	2.60	216,112	21.13	3.68	
Total deposits	\$1,002,457	100.00 %	1.45 %	\$1,053,914	100.00 %	1.95 %	\$1,022,978	100.00 %	2.69 %	

As of December 31, 2010, average time deposits over \$100,000 represented 21.37% of total average deposits, compared with 22.57% of total average deposits as of December 31, 2009. The Company's large denomination time deposits are generally from customers within the local market areas of its subsidiary bank and provide a greater degree of stability than is typically associated with brokered deposit customers with limited business relationships.

The following table sets forth the remaining maturities for time deposits of \$100,000 or more at December 31, 2010:

Time Deposits Of \$100,000 Or More

Maturity Range	
Three months or less	\$27,629
Over three months through six months	42,794
Over six months through twelve months	41,232
Over twelve months	92,018
Total	\$203,673

Brokered deposits account for \$71.2 million of the total from the table above and the majority of their maturities fall into the "Over twelve months" category. As a result of being below well capitalized, among other things, the Bank will be prohibited from accessing the brokered CD markets.

Return on Equity and Assets. The following table presents various ratios for the Company:

Return On Equity And Assets

For the Years Ended December 31,  
2010                      2009                      2008

Return on average assets	(5.32 )%	(2.82 )%	0.47 %
Return on average equity	(66.10 )	(27.80 )	5.43
Average equity to average assets	8.05	10.14	8.69
Dividend payout ratio for common stock	NM	NM	53.71

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## 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 investing activities offset by cash flows used in financing activities resulted in a net increase in cash and cash equivalents of \$26.5 million from December 31, 2010 to December 31, 2009.

During 2010, the Company experienced net cash outflows of \$119.5 million in financing activities primarily due to large decreases in deposits, primarily concentrated in the time deposit category. In contrast, net cash inflows of \$127.6 million were provided by investing activities due to decreases in loans and pay-downs in the security portfolio; \$18.3 million from operating activities largely due to the income tax valuation allowance taken during the year.

The Bank's securities portfolio, federal funds sold, and cash and due from bank deposit balances serve as the primary sources of liquidity for the Company. At December 31, 2010, 25.07% of the Bank's interest-bearing deposits were in the form of time deposits of \$100,000 and over. Management believes these deposits to be a stable source of funds. However, if a large number of these time deposits matured at approximately the same time and were not renewed, the Bank's liquidity could be adversely affected. Currently, the maturities of the large time deposits are spread throughout the year, with 13.55% maturing in the first quarter of 2011, 21.01% maturing in the second quarter of 2011, 20.27% maturing in the third and fourth quarters of 2011, and the remaining 45.17% maturing thereafter. The Bank monitors those maturities in an effort to minimize any adverse effect on liquidity.

At December 31, 2010, borrowings included \$10 million each for Centrue Statutory Trust II and Centrue Statutory Trust III, \$10.25 million payable to the Company's principal correspondent bank, \$71.1 million in FHLB advances, \$16.2 million in securities sold under agreements to repurchase and a shareholder note for \$0.4 million. As described in Note 12 the note to the principal correspondent bank is due March 31, 2015, requires quarterly interest payments, and is collateralized by the Company's stock in the Bank. The shareholder note requires bi-annual payments of \$0.1 million at an imputed interest rate.

In August 2009, the Company announced that in order to improve its liquidity position, the board of directors elected to defer interest expense payments on all \$20.2 million in outstanding junior subordinated debentures related to the trust preferred securities. The terms of the junior subordinated debentures and the trust documents allow the Company to defer payments of interest for up to 20 consecutive quarterly periods without default or penalty. The Company also suspended its regularly scheduled dividend payments on its common stock and deferred regularly scheduled dividend payments on the \$0.5 million in principal outstanding on Series A convertible preferred stock (aggregate liquidation preference of \$2.8 million), the \$0.3 principal outstanding Series B mandatory redeemable preferred stock and \$29.0 million in principal outstanding Series C fixed rate, cumulative perpetual preferred stock (aggregate liquidation preference of \$32.7 million). By taking these actions, the Company expects to save approximately \$2.8 million in annual cash payments.

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The Company's principal source of funds for repayment of the indebtedness is dividends from the Bank. At December 31, 2010, the Bank is prohibited from paying dividends without prior regulatory approval.

#### Contractual Obligations

The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company's contractual cash obligations and other commitments and off-balance sheet instruments as of December 31, 2010:

Contractual Obligations	Payments Due by Period				Total
	Within 1 Year	1-3 Years	4-5 Years	After 5 Years	
Short-term debt	\$—	\$—	\$250	\$—	\$250
Long-term debt	182	191	10,000	—	10,373
Certificates of deposit	345,791	119,196	42,739	93	507,819
Operating leases	290	495	499		