

CENTRUE FINANCIAL CORP

Form 10-Q

May 12, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

**Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2006.**

or

**Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From _____ to _____.**

**Commission File Number 1-15025
CENTRUE FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)**

Delaware

36-3846489

(State or Other Jurisdiction of Incorporation
or Organization)

(I.R.S. Employer Identification Number)

303 Fountains Parkway, Fairview Heights, Illinois

62208

(Address of Principal Executive Offices)

(Zip Code)

(618) 624-1323

(Registrant's telephone number, including area code)

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of May 12, 2006, there were 2,232,189 issued and outstanding shares of the Issuer's common stock.

CENTRUE FINANCIAL CORPORATION
INDEX

| | Page Number |
|--|----------------|
| <u>Part I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Consolidated Financial Statements (Unaudited)</u> | |
| Consolidated Balance Sheets | 3 |
| <u>Consolidated Statements of Income and Comprehensive Income</u> | 4 |
| <u>Consolidated Statements of Cash Flows</u> | 5 - 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7 - 12 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 - 23 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 23 - 25 |
| <u>Item 4. Controls and Procedures</u> | 25 |
| <u>Part II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 26 |
| <u>Item 1a. Risk Factors</u> | 26 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 26 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 26 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 26 - 27 |
| <u>Item 5. Other Information</u> | 27 |
| <u>Item 6. Exhibits</u> | 27 |
| <u>SIGNATURES</u> | 28 |
| <u>Certification of PEO Pursuant to Rule 13a-14(a)/15d-14(a)</u> | |
| <u>Certification of PFO Pursuant to Rule 13a-14(a)/15d-14(a)</u> | |
| <u>Certification of PEO Pursuant to 18 U.S.C. Section 1350</u> | |
| <u>Certification of PFO Pursuant to 18 U.S.C. Section 1350</u> | |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Consolidated Financial Statements (Unaudited)****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY**

| | March 31 2006 | December 31 2005 |
|---|------------------------------|---------------------------------|
| | (dollars in thousands) | |
| Assets | | |
| Cash and due from banks | \$ 12,865 | \$ 13,566 |
| Interest bearing due from banks and other | 1,916 | 4,692 |
| Cash and cash equivalents | 14,781 | 18,258 |
| Certificates of Deposit | 50 | 50 |
| Investment Securities available-for-sale, at fair value: | 120,792 | 125,190 |
| Loans, net of allowance for loan losses of (\$4,433 and \$4,486) | 427,501 | 428,468 |
| Loans held for sale | 2,721 | 8,373 |
| Premises and equipment | 22,634 | 22,579 |
| Goodwill | 14,362 | 14,362 |
| Life insurance contracts | 9,557 | 9,465 |
| Non-marketable equity securities | 5,065 | 5,059 |
| Accrued interest receivable | 3,117 | 3,248 |
| Intangible assets | 1,850 | 1,922 |
| Real estate held for sale | 1,144 | 1,709 |
| Other assets | 2,729 | 2,840 |
| Total Assets | \$ 626,303 | \$ 641,523 |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing | \$ 67,291 | \$ 67,982 |
| Interest bearing | 425,625 | 439,934 |
| Total Deposits | 492,916 | 507,916 |
| Short-term borrowings | 31,037 | 27,014 |
| Long-term borrowings | 55,422 | 58,723 |
| Other liabilities | 3,993 | 4,767 |
| Total Liabilities | 583,368 | 598,420 |
| Stockholders Equity | | |
| Preferred stock, \$.01 par value 500,000 shares authorized and unissued | | |
| Common stock, \$.01 par value 5,500,000 authorized; 4,200,300 shares issued | 42 | 42 |
| Additional paid-in capital | 31,002 | 30,806 |
| Retained income, partially restricted | 48,085 | 47,403 |
| Accumulated other comprehensive loss | (1,898) | (1,657) |
| Unearned restricted stock (9,900 and 14,750 shares) | (302) | (346) |

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

| | | |
|---|------------|------------|
| Treasury stock, (1,966,361 and 1,937,361 shares), at cost | (33,994) | (33,145) |
| Total Stockholders' Equity | 42,935 | 43,103 |
| Total Liabilities and Stockholders' Equity | \$ 626,303 | \$ 641,523 |

See the accompanying notes to consolidated financial statements.

3

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31 | |
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Interest income: | | |
| Loans | \$ 7,080 | \$ 6,185 |
| Investments | | |
| Taxable | 1,122 | 994 |
| Tax-exempt | 170 | 173 |
| Deposits with banks and other | 7 | 8 |
| FHLB stock dividends | 39 | 49 |
| | | |
| Total interest and dividend income | 8,418 | 7,409 |
| Interest expense: | | |
| Deposits | 2,772 | 1,927 |
| Short-term borrowings | 232 | 55 |
| Long-term borrowings | 720 | 742 |
| | | |
| Total interest expense | 3,724 | 2,724 |
| | | |
| Net interest income | 4,694 | 4,685 |
| Provision for loan losses | 75 | 250 |
| | | |
| Net interest income after provision for loan losses | 4,619 | 4,435 |
| Noninterest income: | | |
| Fee income | 1,382 | 1,099 |
| Net gain on sale of securities | 4 | 183 |
| Net gain (loss) on sale of real estate held for sale | (24) | 1 |
| Net gain on sale of loans | 107 | 131 |
| Increase in cash surrender value of life insurance | 92 | 91 |
| Other | 82 | 60 |
| | | |
| Total noninterest income | 1,643 | 1,565 |
| Noninterest expense: | | |
| Compensation and benefits | 3,132 | 2,336 |
| Occupancy, net | 463 | 387 |
| Furniture and equipment | 282 | 329 |
| Advertising | 90 | 80 |
| Data processing | 344 | 158 |
| Telephone and postage | 152 | 171 |
| Amortization of intangibles | 72 | 61 |
| Legal and professional fees | 162 | 142 |
| Other | 663 | 660 |
| | | |
| Total noninterest expense | 5,360 | 4,324 |

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

| | | |
|--|---------|----------|
| Income before income taxes | 902 | 1,676 |
| Income tax expense | 220 | 488 |
| Net income | \$ 682 | \$ 1,188 |
| Other comprehensive income (loss): | | |
| Change in unrealized losses on available for sale securities, net of related income taxes | (239) | (899) |
| Less: reclassification adjustment for gains included in net income net of related income taxes | 2 | 131 |
| Other comprehensive loss | (241) | (1,030) |
| Comprehensive income | \$ 441 | \$ 158 |
| Basic earnings per share | \$ 0.31 | \$ 0.50 |
| Diluted earnings per share | \$ 0.30 | \$ 0.50 |
| Dividends per share | \$ | \$ |
| See notes to the accompanying consolidated financial statements | | |

4

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31 | |
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Operating activities | | |
| Net income | \$ 682 | \$ 1,188 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 75 | 250 |
| Depreciation and amortization | 418 | 429 |
| Net amortization on investments | 26 | 62 |
| Amortization of intangibles | 72 | 61 |
| Share based compensation expense | 198 | 69 |
| Deferred income taxes | (80) | (74) |
| Origination of loans held for sale | (7,225) | (6,162) |
| Proceeds from sales of loans held for sale | 8,192 | 6,391 |
| Gain on sale of loans | (107) | (131) |
| Gain on sale of securities, net | (4) | (183) |
| (Gain) loss on sale of real estate held for sale | 24 | (1) |
| Increase in cash surrender value of life insurance | (92) | (91) |
| Federal Home Loan Bank stock dividends | (6) | (49) |
| Changes in: | | |
| Accrued interest receivable | 131 | (187) |
| Other assets and other liabilities, net | (459) | 496 |
| Net cash provided by operating activities | 1,845 | 2,068 |
| Investing activities | | |
| Purchases of available for sale securities | | (9,786) |
| Proceeds from sales of available for sale securities | 2,475 | 11,014 |
| Proceeds from maturities of available for sale securities | 1,536 | 4,578 |
| Proceeds from maturities of certificates of deposit | | 99 |
| Proceeds from sales of real estate held for sale | 541 | 42 |
| Net decrease in loans | 5,684 | 281 |
| Purchases of bank premises and equipment | (473) | (1,318) |
| Net cash provided by investing activities | 9,763 | 4,910 |
| Financing activities | | |
| Net (decrease) in deposits | (15,000) | (29,936) |
| Proceeds of long-term borrowings | 19,000 | 19,705 |
| Repayments of long-term borrowings | (22,301) | (13,388) |
| Net change in short term borrowings | 4,023 | 18,186 |
| Proceeds from exercise of stock options | 348 | 61 |
| Tax benefits from tax deductions in excess of compensation cost recognized | 9 | |
| Purchase of treasury stock | (1,164) | (152) |

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-Q

| | | |
|--|-----------|-----------|
| Net cash used in financing activities | (15,085) | (5,524) |
| Net increase (decrease) in cash and cash equivalents | (3,477) | 1,454 |
| Cash and cash equivalents beginning of year | 18,258 | 13,286 |
| Cash and cash equivalents end of period | \$ 14,781 | \$ 14,740 |

Table of Contents

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31 | |
| | 2006 | 2005 |
| | (dollars in thousands) | |
| Supplemental disclosure of cash flow information | | |
| Interest paid | \$ 4,036 | \$ 2,584 |
| Income taxes paid | | |
| Real estate acquired in settlement of loans | | 195 |
| See the accompanying notes to consolidated financial statements. | | |

Table of Contents

CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2006

Note 1 Basis of Presentation

The consolidated financial statements of Centrue Financial Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2005 balance sheet has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for the Company on Form 10-K for the year ended December 31, 2005.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Centrue Bank (the Bank), an Illinois chartered commercial bank. All material intercompany transactions and balances are eliminated. The Company is a financial holding company that engages in its business through its sole subsidiary, in a single significant business segment.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of mortgage servicing rights, goodwill, deferred taxes, real estate held for sale and the valuation of stock compensation plans. In connection with the determination of the allowance for loan losses and the valuation of real estate acquired by foreclosure, management obtains independent appraisals for significant properties.

Certain 2005 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2006.

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R) which amends SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company adopted SFAS 123R using the modified retrospective method. The modified retrospective method requires that compensation cost be recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted after the effective date and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R. The modified retrospective method also allows companies to adjust prior year financials based on the amounts previously reported under the SFAS 123 pro forma disclosures for all prior periods

Table of Contents

for which SFAS 123 was effective. See Note 6 for a more detailed description of the Company's adoption of SFAS 123R.

Note 2 Earnings Per Share

Basic earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock outstanding. Diluted earnings per share of common stock have been determined by dividing net income for the period by the average number of shares of common stock and common stock equivalents outstanding. Average unearned restricted stock shares have been excluded from common shares outstanding for both basic and diluted earnings per share. Common stock equivalents assume exercise of stock options, and the purchase of treasury stock with the option proceeds at the average market price for the period (when dilutive). The Company has an incentive stock option plan for the benefit of directors, officers and employees. Diluted earnings per share have been determined considering the stock options granted, net of stock options which have been exercised.

| | Three Months Ended March 31 | |
|---|--|-------------|
| | 2006 | 2005 |
| | (Dollars in thousands) | |
| Basic | | |
| Net income | \$ 682 | \$ 1,188 |
| Average common shares outstanding | 2,233,548 | 2,359,235 |
| Net income per common share - basic | \$ 0.31 | \$ 0.50 |
| Diluted | | |
| Net income | \$ 682 | \$ 1,188 |
| Average common shares outstanding | 2,233,548 | 2,359,235 |
| Dilutive potential due to stock options | 9,297 | 10,014 |
| Average common shares outstanding | 2,242,845 | 2,369,249 |
| Net income per common share - diluted | \$ 0.30 | \$ 0.50 |

Note 3 Liquidity and Capital Resources

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The following table summarizes significant contractual obligations and other commitments at March 31, 2006 (in thousands):

Table of Contents

| Years Ended December 31, | Time Deposits | Long-term Borrowings (1) | Total |
|---------------------------------|--------------------------|---|--------------|
| 2006 | \$ 114,134 | \$ 13,041 | \$ 127,175 |
| 2007 | 97,003 | 31,449 | 128,452 |
| 2008 | 14,585 | 156 | 14,741 |
| 2009 | 5,304 | 10,165 | 15,469 |
| 2010 | 5,843 | 173 | 6,016 |
| thereafter | 1,140 | 438 | 1,578 |
| Total | \$ 238,009 | \$ 55,422 | \$ 293,431 |

Financial instruments whose contract amounts represent credit risk:

| | |
|-------------------------------|------------|
| Commitment to originate loans | \$ 1,423 |
| Commitments to extend credit | 53,334 |
| Standby letters of credit | 3,717 |
| Total | \$ 351,905 |

(1) Fixed rate callable borrowings are included in the period of their modified duration rather than in the period in which they are due. Borrowings include fixed rate callable advances of \$5 million and \$2 million maturing in fiscal year 2008 and 2011 which are callable in 2006 and variable rate prepayable advances of \$20 million maturing in

fiscal year 2007.
Trust preferred
debentures of
\$10 million
mature in both
2032 and 2034,
but are callable
in 2007 and
2009.

Note 4 Investments With Other Than Temporary Impairment

Continuous gross unrealized losses of investments in debt and equity securities as of March 31, 2006 (in thousands) which are classified as temporary were as follows:

| Description of | Continuous unrealized losses existing for less than 12 months | | Continuous unrealized losses existing greater than 12 months | | Total | |
|--|--|------------|---|------------|------------|------------|
| | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |
| | Value | losses | Value | losses | Value | losses |
| Securities | | | | | | |
| U.S. government agencies | \$ 26,125 | \$ 575 | \$ 49,648 | \$ 1,369 | \$ 75,773 | \$ 1,944 |
| Municipals | 2,339 | 28 | 18,811 | 614 | 21,150 | 642 |
| Mortgage backed securities | 5,093 | 70 | 6,279 | 262 | 11,372 | 332 |
| Corporate Bonds | | | 1,943 | 113 | 1,943 | 113 |
| Total temporarily impaired securities | \$ 33,557 | \$ 673 | \$ 76,681 | \$ 2,358 | \$ 110,238 | \$ 3,031 |

The unrealized losses on investment securities that have been in a continuous loss position for more than 12 consecutive months are generally due to changes in interest rates and, as such, are considered to be temporary, by the Company.

Table of Contents

Note 5 Junior Subordinated Debt Owed to Unconsolidated Trusts

The Company issued \$10.0 million in each of April 2002 and April 2004 in cumulative trust preferred securities through newly formed special-purpose trusts, Kankakee Capital Trust I (Trust I) and Centrue Statutory Trust II (Trust II). The proceeds of the offerings were invested by the trusts in junior subordinated deferrable interest debentures of Trust I and Trust II. Trust I and Trust II are unconsolidated subsidiaries of the Company, and their sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a variable rate of 3.70% and 2.65% over the LIBOR rate, respectively, (at a rate of 8.62% and 7.57% at March 31, 2006) per annum of the stated liquidation amount of \$1,000 per preferred security. Interest expense on the trust preferred securities was \$397,000 and \$299,000 for the three months ended March 31, 2006 and 2005. The obligations of the trusts are fully and unconditionally guaranteed, on a subordinated basis, by the Company. The trust preferred securities for Trust I are mandatorily redeemable upon the maturity of the debentures on April 7, 2032, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 7, 2007. The trust preferred securities for Trust II are mandatorily redeemable upon the maturity of the debentures on April 22, 2034, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 22, 2009. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's capital stock. For regulatory purposes, the trust preferred securities qualify as Tier I capital subject to certain provisions.

NOTE 6 STOCK PLANS

Effective January 1, 2006, the Company adopted SFAS 123R using the modified retrospective method to account for share-based payments to employees and the Company's Board of Directors. In accordance with the modified retrospective method, the Company has adjusted previously reported results to reflect the effect of expensing stock options granted during those periods. The cumulative adjustment associated with the adoption of SFAS 123R increased the Company's deferred tax asset \$182,000, surplus \$1.1 million and decreased retained earnings \$901,000 as of March 31, 2006.

The primary type of share-based payment utilized by the Company is stock options. Stock options are awards which allow the employee to purchase shares of the Company's stock at a fixed price. Stock options are granted at an exercise price equal to the Company stock price at the date of grant. Stock options issued by the Company generally have a contractual term of seven to ten years and vest over five years for non-director options and immediately at the time of issuance for director options. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined by the Plan).

Table of Contents

A summary of option activity under the Plan as of March 31, 2006, and changes during the year then ended is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--------------------------------|---------------|--|--|----------------------------------|
| Outstanding at January 1, 2006 | 223,800 | \$ 25.41 | | |
| Granted | | | | |
| Exercised | (15,000) | 23.19 | | |
| Forfeited | (500) | 27.50 | | |
| Outstanding at March 31, 2006 | 208,300 | \$ 25.52 | 7.3 | \$ 1,700,724 |
| Exercisable at March 31, 2006 | 98,800 | \$ 24.11 | 5.5 | \$ 743,014 |

There were no option grants issued by the Company during the three month period ended March 31, 2006 or 2005.

A summary of the status of the Company's nonvested shares as of March 31, 2006, and changes during the three month period ended March 31, 2006, is presented below:

| Nonvested Shares | Shares | Weighted-Average Grant Date Fair Value |
|------------------------------|---------------|---|
| Nonvested at January 1, 2006 | 120,000 | \$ 26.58 |
| Granted | | |
| Vested | 10,100 | 23.66 |
| Forfeited | 400 | 27.50 |
| Nonvested at March 31, 2006 | 109,500 | \$ 26.84 |

The Company estimates the fair value of stock option grants using the Black-Scholes valuation model and the key input assumptions are described fully in the disclosure of its critical accounting policies in Item 2 of this report on Form 10-Q. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are consistent with SFAS 123R and appropriately estimates the fair value of Centrue's stock option grants. Estimates of fair value are not intended to predict actual future events of the value ultimately realized by employees who receive share-based awards, and subsequent events are not indicative of the reasonableness of original estimates of fair value made by the Company under SFAS 123R.

As of March 31, 2006 there was \$492,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.58 years.

Note 7 Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140 (FAS 155). FAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying

special

Table of Contents

purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of FAS 155 to have a material effect on the results of operations or the statement of condition.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 (FAS 140 and FAS 156). FAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends FAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. Upon adoption, the Company will apply the requirements for recognition and initial measurement of servicing assets and servicing liabilities prospectively to all transactions. The Company will adopt FAS 156 for the fiscal year beginning January 1, 2007 and currently has not determined if it will adopt FAS 156 using the fair value election.

Table of ContentsITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
GENERAL

The Company serves the financial needs of families and local businesses in its primary market areas through the Bank. As a community-oriented financial institution, the Bank operates twenty retail banking offices and provides comprehensive financial services primarily to individuals and local businesses residing in Kankakee, Champaign, Clinton, Effingham, Grundy, Iroquois, Livingston, St. Clair and Will counties in Illinois. The Company's business involves attracting deposits from the general public and using such deposits to originate commercial business, commercial real estate, consumer, multi-family, construction loans and residential mortgage loans in its market areas. The Company also invests in investment securities and various types of short term liquid assets. The Company had approximately 193 full time equivalent (FTE) employees at March 31, 2006.

The Company has relocated its headquarters from Kankakee, Illinois to Fairview Heights, Illinois. The Company is also in the process of relocating the Bank headquarters to Fairview Heights and expects to have this completed by the end of the second quarter.

On April 8, 2005, the Company acquired for cash all of the outstanding shares of Illinois Community Bancorp, Inc. (ICB) for a total cost of \$3.3 million. The acquisition was accounted for using the purchase method of accounting. As such, the results of operations of the acquired entity are excluded from the consolidated financial statements of income for the periods prior to the acquisition date. At closing, ICB had assets of \$29.9 million, including \$17.9 million of loans, deposits of \$27.7 million and stockholders' equity of \$1.4 million.

FINANCIAL CONDITION

The Company's total assets were \$626.3 million at March 31, 2006, a decrease of \$15.2 million or 2.4%, from \$641.5 million at December 31, 2005. The decrease in total assets was primarily due to reductions in cash and cash equivalents of \$3.5 million, investment securities of \$4.4 million, loans of \$6.6 million and real estate held for sale of \$565,000.

Cash and cash equivalents decreased \$3.5 million or 19.0% to \$14.8 million from \$18.3 million. Investment securities decreased \$4.4 million or 3.5% to \$120.8 million from \$125.2 million. The decrease in cash and cash equivalents and investment securities was primarily a result of short-term funding and liquidity needs.

Net loans decreased \$967,000 during the quarter. The decrease was due primarily to the payoff of a \$4.0 million commercial credit which the Company decided not to renew under the existing terms of the note due to changes in the borrower's financial condition and its strategic plans and the \$2.6 million payoff of a purchased loan participation. These decreases were partially offset by a transfer of \$4.8 million of loans held for sale into loans held for investment.

Deposits decreased \$15.0 million or 3.0% to \$492.9 million from \$507.9 million. The decrease in deposits was primarily attributable to a \$16.0 million reduction in certificates of deposit over \$100,000, a \$1.2 million reduction in checking accounts and a \$3.9 million reduction in savings accounts, partially offset by an increase in money market accounts of \$7.7 million. The decrease in certificates of deposit over \$100,000 of \$16.0 million resulted from the Company's decision not to be as aggressive in bidding on the renewal of these deposits in light of the lower wholesale funding rates available to us.

Table of Contents

Short-term borrowings increased \$4.0 million or 14.9% to \$31.0 million from \$27.0 million. Short-term borrowings include customer repurchase agreements, federal funds purchased, and open-line borrowings from the Federal Home Loan Bank of Chicago (FHLB). The increase in short-term borrowings was primarily due to an increase in customer repurchase agreements of \$6.2 million and federal funds purchased of \$1.2 million, offset partially by a reduction in open-line borrowings from the FHLB of \$3.4 million.

Long-term borrowings decreased \$3.3 million or 5.6% to \$55.4 million from \$58.7 million. Long-term borrowings include advances from the FHLB, term repurchase agreements, junior subordinated debt owed to unconsolidated trusts, and notes payable. The decrease in long-term borrowings was primarily a result of the increase in short-term borrowings.

Stockholders' equity decreased \$168,000 or 0.4% to \$42.9 million from \$43.1 million at December 31, 2005. The decrease in stockholders' equity was primarily due to a decrease in accumulated other comprehensive income of \$241,000 and the purchase of treasury stock of \$1.2 million, offset by net income. Equity per share of common stock increased by \$0.17 to \$19.22 at March 31, 2006 from \$19.05 at December 31, 2005.

ASSET QUALITY

The Company's asset quality management program, particularly with regard to loans, is designed to analyze potential risk elements and to support the growth of a high quality loan portfolio. The existing loan portfolio is monitored via the Company's loan rating system. The loan rating system is used to determine the adequacy of the allowance for loan losses. The Company's loan analysis process proactively identifies, monitors and works with borrowers for whom there are indications of future repayment difficulties. The Company's lending philosophy is to invest in the communities served by its banking centers so that it can effectively monitor and control credit risk.

During the first quarter, non-accrual loans decreased \$645,000. This is our seventh consecutive quarter of reducing our nonperforming loans. The decrease in nonperforming loans is attributable to the Company's implementation of an ongoing comprehensive loan review as well as the adoption and implementation of a new loan policy that identifies problem loans in a timelier manner. Management is in various stages of workout or liquidation with the remaining nonperforming loans.

| | March 31 2006 | December 31 2005 | Change |
|---|------------------------|------------------------|------------|
| | (dollars in thousands) | | |
| Non-accruing loans | \$ 3,178 | \$ 3,823 | \$ (645) |
| Accruing loans delinquent 90 days or more | | | |
| Total nonperforming loans | 3,178 | 3,823 | (645) |
| Foreclosed assets | 1,144 | 1,709 | (565) |
| Troubled debt restructuring | 34 | 35 | (1) |
| Total nonperforming assets | \$ 4,356 | \$ 5,567 | \$ (1,211) |
| Allowance for loan losses to total loans | 1.02% | 1.02% | |
| Allowance for loan losses to nonperforming loans | 139.49% | 117.33% | |
| Nonperforming loans to total loans | 0.73% | 0.87% | |
| Nonperforming assets to total loans and foreclosed property | 1.00% | 1.26% | |
| Nonperforming assets to total assets | 0.70% | 0.87% | |

Table of Contents

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance for loan losses to total loans. The ratio of the allowance for loan losses to total loans was 1.02% at both March 31, 2006 and December 31, 2005. The ratio of the allowance for loan losses to non-performing loans increased to 139.49% as of March 31, 2006 compared to 117.33% at December 31, 2005. The increase in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of a decrease of \$645,000 in non-accruing loans.

In 2004, the Company recruited a Chief Credit Officer to strengthen our monitoring of credit quality and the overall loan portfolio. His duties include responsibility for all credit administration activities and to oversee an independent review of new and existing loans in the portfolio. Company management performs a quarterly analysis of the adequacy of the allowance for loan losses. Problem loans are classified into one of four categories: Special Mention, Substandard, Doubtful, and Loss. The Company's implementation of an ongoing comprehensive loan review, as well as the adoption and implementation of a new comprehensive loan policy has assisted management in identifying problem loans in a timely manner. The new program was designed to facilitate the focus of collection efforts in problem areas which should result in lower charge-offs. Classified loans began decreasing in 2004 and decreased dramatically during 2005 and the first quarter of 2006. The Company will continue to work to reduce the volume of classified loans through the remainder of 2006.

The Company recognized charge offs in the amount of \$328,000 and \$77,000 during the first quarter of 2006 and 2005 periods, respectively. Recoveries totaled \$200,000 and \$192,000 for the 2006 and 2005 periods. The provision for loan losses totaled \$75,000 for the first quarter 2006 compared to \$250,000 for the first quarter of 2005.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses in the loan portfolio. Management's methodology to determine the adequacy of the allowance for loan losses considers specific credit reviews, past loan loss experience, current economic conditions and trends, and the volume, growth and composition of the loan portfolio. Based upon the Company's quarterly analysis of the adequacy of the allowance for loan losses, considering remaining collateral of loans with more than a normal degree of risk, historical loan loss percentages and economic conditions, it is management's belief that the allowance for loan losses at March 31, 2006 was adequate. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

Each credit on the Company's internal loan watch list is evaluated periodically to estimate potential losses. In addition, minimum loss estimates for each category of watch list credits are provided for based on management's judgment which considers past loan loss experience and other factors. For installment and real estate mortgage loans, specific allocations are based on past loss experience adjusted for recent portfolio growth and economic trends. The total of the estimated loss exposure resulting from the analysis is considered the allocated portion of the allowance for loan losses. The amounts specifically provided for individual loans and pools of loans are supplemented by an unallocated portion of the allowance for loan losses. This unallocated amount is determined based on management's judgment which considers, among other things, the risk of error in the specific allocations, other potential exposure in the loan portfolio, economic conditions and trends, and other factors.

The allowance for loan losses is charged when management determines that the prospects of recovery of the principal of a loan have significantly diminished. Subsequent recoveries, if any, are credited to the allowance for loan losses. Credit card loans are charged off at the earliest of notice of bankruptcy, when at least 120 days past due, or when otherwise deemed to be uncollectible. All other installment loans that are 90 to 120 days past due are charged off

Table of Contents

monthly unless the loans are insured for credit loss or where scheduled payments are being received. Real estate mortgage loans are written down to fair value upon foreclosure. Commercial and other loan charge-offs are made based on management's on-going evaluation of non-performing loans.

CRITICAL ACCOUNTING POLICIES

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion, including the allowance for loan losses, goodwill, and mortgage servicing rights, addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Allowance for Loan Losses The allowance for loan losses is a material estimate that is particularly susceptible to significant changes in the near term and is established through a provision for loan losses. The allowance is based upon past loan experience and other factors which, in management's judgment, deserve current recognition in estimating loan losses. The evaluation includes a review of all loans on which full collectibility may not be reasonably assured. Other factors considered by management include the size and character of the loan portfolio, concentrations of loans to specific borrowers or industries, existing economic conditions and historical losses on each portfolio category. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, which collateralize loans. Management believes it uses the best information available to make such determinations. If circumstances differ substantially from the assumptions used in making determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be affected. While the Company believes it has established its existing allowance for loan losses in conformity with accounting principles generally accepted in the United States of America, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not request an increase in the allowance for loan losses. Because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases to the allowance will not be necessary if loan quality deteriorates.

Goodwill Costs in excess of the estimated fair value of identified net assets acquired through purchase transactions are recorded as an asset by the Company. The Company performs an annual impairment assessment as of September 30. No impairment of goodwill has been identified as a result of these tests. In making these impairment assessments, management must make subjective assumptions regarding the fair value of the Company's assets and liabilities. It is possible that these judgments may change over time as market conditions or Company strategies change, and these changes may cause the Company to record impairment charges to adjust the goodwill to its estimated fair value.

Real Estate Held for Sale Real estate held for sale is recorded at the property's fair value at the date of foreclosure (cost). Initial valuation adjustments, if any, are charged against the allowance for loan losses. Property is evaluated to ensure the recorded amount is supported by its current fair value. Subsequent declines in estimated fair value are charged to expense when incurred.

Table of Contents

Mortgage Servicing Rights The Company recognizes as a separate asset the rights to service mortgage loans for others. The value of mortgage servicing rights is amortized in relation to the servicing revenue expected to be earned. Mortgage servicing rights are periodically evaluated for impairment based upon the fair value of those rights. Estimating the fair value of the mortgage servicing rights involves judgment, particularly of estimated prepayment speeds of the underlying mortgages serviced. Net income could be affected if management's assumptions and estimates differ from actual prepayments.

Deferred Income Taxes - Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are also recognized for operating loss and tax credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to an amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Stock Compensation Plans. In January 2006, the Company adopted Financial Accounting Standards Board Statement No. 123R (revised 2004), Share-Based Payment (SFAS 123R) which amends SFAS 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires new, modified and unvested share-based payment transactions with employees to be measured at fair value and recognized as compensation expense over the vesting period. The fair value of each option award is estimated using a Black-Scholes option valuation model that requires the Company to develop estimates for assumptions used in the model. The Black-Scholes valuation model uses the following assumptions: expected volatility, expected term of option, risk-free interest rate and dividend yield. Expected volatility estimates are developed by the Company based on historical volatility of the Company's stock. The Company uses historical data to estimate the expected term of the options. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury yield in effect at the grant date. The dividend yield represents the expected dividends on the Company stock.

The above listing is not intended to be a comprehensive list of all the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Table of Contents

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2006 AND 2005

For the first quarter of 2006, the Company reported net income of \$682,000 (\$0.30 per diluted share) compared to net income of \$1.2 million (\$0.50 per diluted share) in the first quarter of 2005, a decrease of \$506,000 or 42.6%. The decrease was primarily due to an increase in non-interest expenses of \$1.0 million or 24.0%, partially offset by decreases in provision for loan losses of \$175,000 and income tax expense of \$268,000.

Interest income increased \$1.0 million to \$8.4 million for the first quarter of 2006 compared to \$7.4 million for the comparable 2005 period. Interest expense increased \$1.0 million to \$3.7 million for the first quarter of 2006 compared to \$2.7 million for the comparable 2005 period. The increases in interest income and interest expense were primarily due to increases in interest rates. Interest expense during the first quarter of 2006 was reduced by \$162,000 for capitalized interest relating to various construction projects of the Company. The net interest margin decreased to 3.42% for the first quarter of 2006 compared to 3.56% for the comparable 2005 period. The decrease in the net interest margin was primarily a result of deposit and borrowing rates increasing faster than loan and investment rates, as is typical in a rising interest rate environment.

Table of Contents

TABLE I
NET INTEREST INCOME ANALYSIS (UNAUDITED)
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

| | Three Months Ended March 31, 2006 | | | 2005 | | |
|---|--------------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
| | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate |
| (Dollars in Thousands) | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable (1) (3) | \$ 437,951 | \$ 7,114 | 6.59% | \$ 418,584 | \$ 6,206 | 6.01% |
| Investments securities (2) | | | | | | |
| (3) | 123,703 | 1,355 | 4.44% | 118,761 | 1,237 | 4.22% |
| Other interest-earning assets | 2,351 | 7 | 1.21% | 2,370 | 8 | 1.37% |
| FHLB stock | 4,416 | 39 | 3.58% | 3,612 | 49 | 5.50% |
| Total interest-earning assets | 568,421 | 8,515 | 6.08% | 543,327 | 7,500 | 5.60% |
| Other assets | 64,887 | | | 57,770 | | |
| Total assets | \$ 633,308 | | | \$ 601,097 | | |
| Interest-bearing liabilities: | | | | | | |
| Certificate accounts | \$ 247,967 | 2,099 | 3.43% | \$ 243,751 | 1,576 | 2.62% |
| Savings deposits | 84,948 | 139 | 0.66% | 88,721 | 133 | 0.61% |
| Demand and NOW deposits | 100,410 | 534 | 2.16% | 88,476 | 218 | 1.00% |
| Customer repurchase agreements | 22,791 | 151 | 2.69% | 11,814 | 55 | 1.89% |
| Borrowings | 62,383 | 801 | 5.21% | 64,148 | 742 | 4.69% |
| Total interest-bearing liabilities | 518,499 | 3,724 | 2.91% | 496,910 | 2,724 | 2.22% |
| Non-interest bearing demand deposits | 66,799 | | | 58,018 | | |
| Other liabilities | 4,484 | | | 2,438 | | |
| Total liabilities | 589,782 | | | 557,366 | | |
| Stockholders equity | 43,526 | | | 43,731 | | |

| | | |
|---|------------|------------|
| Total liabilities and stockholders equity | \$ 633,308 | \$ 601,097 |
| Net interest income | \$ 4,791 | \$ 4,776 |
| Net interest rate spread | 3.17% | 3.38% |
| Net earning assets | \$ 49,922 | \$ 46,417 |
| Net yield on average interest-earning assets (net interest margin) | 3.42% | 3.56% |
| Average interest-earning assets to average interest-bearing liabilities | 109.63% | 109.34% |

(1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, and the allowance for losses on loans.

(2) Calculated including investment securities available-for-sale and certificates of deposit.

(3) Presented on a fully tax-equivalent basis, assuming a tax rate of 34%.

Tax equivalent interest income increased \$1.0 million, to \$8.5 million. The increase was primarily attributable to an increase in interest rates and an increase in average earning assets. Average earning assets increased \$25.1 million to \$568.4 million from \$543.3 million in 2005. The average tax equivalent rate earned on earning assets increased 48 basis points to 6.08%

Table of Contents

from 5.60% for the first quarter of 2005. The increase in the yield earned on interest-earning assets was the result of increasing market interest rates plus the gradual change in the loan mix from real estate loans to commercial loans. Average real estate loans decreased \$20.6 million and average commercial loans increased \$33.2 million.

Interest expense increased \$1.0 million to \$3.7 million from \$2.7 million in 2005. The increase was primarily attributable to an increase in the average balance of interest bearing liabilities and an increase in the rate paid on average interest bearing liabilities. The rate paid on interest bearing liabilities increased 69 basis points to 2.91% from 2.22% in 2005. Average interest-bearing liabilities increased \$21.6 million to \$518.5 million from \$496.9 million. The increase in average interest-bearing liabilities was primarily attributable to an increase in customer repurchase agreements and demand and NOW accounts. The Company has been actively working to improve the overall deposit mix which has included increasing the level of customer repurchase agreements. The increase in the average yield on interest-bearing liabilities resulted from increasing market interest rates.

TABLE 4 Non-interest Income and Expense

| | Three Months Ended | | Change | |
|--|------------------------------------|----------|----------|-----------|
| | 2006 | 2005 | Amount | Percent |
| | March 31 (dollars in thousands) | | | |
| Non-interest income: | | | | |
| Fee income | \$ 1,382 | \$ 1,099 | \$ 283 | 25.8% |
| Net gain on sale of securities | 4 | 183 | (179) | (97.8) |
| Net gain (loss) on sale of real estate held for sale | (24) | 1 | (25) | (2,500.0) |
| Net gain on sale of loans | 107 | 131 | (24) | (18.3) |
| Increase in cash surrender value of life insurance | 92 | 91 | 1 | 1.1 |
| Other | 82 | 60 | 22 | 36.7 |
| Total | \$ 1,643 | \$ 1,565 | \$ 78 | 5.0% |
| Non-interest expense: | | | | |
| Compensation and benefits | \$ 3,132 | \$ 2,336 | \$ 796 | 34.1% |
| Occupancy, net | 463 | 387 | 76 | 19.6 |
| Furniture and equipment | 282 | 329 | (47) | (14.3) |
| Advertising | 90 | 80 | 10 | 12.5 |
| Data processing | 344 | 158 | 186 | 117.7 |
| Telephone and postage | 152 | 171 | (19) | (11.1) |
| Amortization of Intangibles | 72 | 61 | 11 | 18.0 |
| Legal and professional fees | 162 | 142 | 20 | 14.1 |
| Other | 663 | 660 | 3 | 0.5 |
| Total | \$ 5,360 | \$ 4,324 | \$ 1,036 | 24.0% |

The increase in fee income of \$283,000 was primarily due to increased usage of the overdraft protection program. Gain on sale of securities decreased \$179,000 to \$4,000 during the first quarter of 2006 compared to \$183,000 for the comparable 2005 period. The \$183,000 gain on sale of securities during 2005 was part of our asset liability management strategy.

Total non-interest expenses of \$5.4 million increased \$1.0 million, or 24.0%, from the comparable 2005 period. Compensation and benefits increased primarily due to an increase of FTEs from 172 in the first quarter of 2005 compared to 193 for the first quarter of 2006 and normal merit increases in salaries, as well as \$119,000 of expenses associated with the vesting of restricted stock and stock options for the Company's former Chief Financial Officer. The increase in FTEs includes the employees added with the opening of our Fairview Heights branch and the Illinois

Community Bank acquisition as well as expansion of our mortgage lending staff. We also added significant management depth with the addition of a Chief

Table of Contents

Operating Officer and the recruitment and hiring of new managers for our mortgage, consumer lending, operations and compliance departments.

Other expenses increased primarily due to an increase in data processing expenses of \$186,000 resulting from the Company's June 2005 conversion from an in-house data processing system to an outsourced data processing system. This new system has significantly improved our technology and has allowed us to improve the service to our customers. A portion of the increased data processing expense has been offset with a decrease in FTEs in our operations.

Income tax expense was \$220,000, or \$268,000, lower than in 2005. The effective income tax rate decreased to 24.4% from 29.1%. The decrease in the effective rate was primarily due to a decrease in taxable income as a percentage of total income.

The annualized return on stockholders' equity for the quarter was 6.36% compared to 11.02% for the comparable 2005 period. The decrease in the return on stockholders' equity was primarily a result of lower net income. Average stockholders' equity decreased due to stock repurchases by the Company during 2005 and 2006 and was offset by 59,638 shares issued in the acquisition of Illinois Community Bank in April 2005. The annualized return on assets was 0.44% compared to 0.80% for the first quarter of 2005. The decrease in the return on assets was primarily due to lower net income, as discussed above.

REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined by the regulations) to average assets (as defined) and Total and Tier I capital (as defined) to risk-weighted assets (as defined). Management believes, as of March 31, 2006, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2006, the most recent notification from the Bank's primary regulators, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Table of Contents

| | Actual | | For Capital Adequacy Purposes | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|--------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of March 31, 2006 | | | | | | |
| Tier 1 Capital to Average Assets | | | | | | |
| Centrue Financial | 43,565 | 7.06% | 24,684 | 4.00% | N/A | |
| Centrue Bank | 44,443 | 7.28% | 24,408 | 4.00% | 30,510 | 5.00% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 43,565 | 10.44% | 16,684 | 4.00% | N/A | |
| Centrue Bank | 46,443 | 10.78% | 16,485 | 4.00% | 24,727 | 6.00% |
| Total Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 53,054 | 12.72% | 33,369 | 8.00% | N/A | |
| Centrue Bank | 48,876 | 11.86% | 32,970 | 8.00% | 41,212 | 10.00% |
| As of December 31, 2005 | | | | | | |
| Tier 1 Capital to Average Assets | | | | | | |
| Centrue Financial | 43,396 | 6.95% | 24,967 | 4.00% | N/A | |
| Centrue Bank | 43,773 | 7.08% | 24,733 | 4.00% | 30,917 | 5.00% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 43,396 | 10.33% | 16,796 | 4.00% | N/A | |
| Centrue Bank | 43,773 | 10.49% | 16,696 | 4.00% | 25,044 | 6.00% |
| Total Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 52,962 | 12.61% | 33,593 | 8.00% | N/A | |
| Centrue Bank | 48,259 | 11.56% | 33,391 | 8.00% | 41,739 | 10.00% |

Table of Contents

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company's management and on information currently available to management, are generally identifiable by the use of words such as believe, expect, anticipate, plan, intend estimate, may, will, would, could, expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the Risk Factors section included under Item 1A. of Part I of the Company's Form 10-K for the year ended December 31, 2005. In addition to the risk factors described in that section, there are other factors that may impact any public company, including the Company, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ASSET/LIABILITY MANAGEMENT

In an attempt to manage its exposure to changes in interest rates, management closely monitors the Company's interest rate risk. The Bank has a funds management committee, which meets monthly and reviews the Bank's interest rate risk position and evaluates its current asset/liability pricing and strategies. This committee adjusts pricing and strategies as needed and makes recommendations to the Bank's board of directors regarding significant changes in strategy. In addition, on a quarterly basis the board reviews the Bank's asset/liability position, including simulations of the effect on the Bank's capital of various interest rate scenarios.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preferences, may place somewhat greater emphasis on maximizing its net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to improve its net income. While the Company does have some exposure to changing interest rates, management believes that the Company is positioned to protect earnings throughout changing interest rate environments.

The Company currently does not enter into derivative financial instruments, including futures, forwards, interest rate risk swaps, option contracts, or other financial instruments with similar characteristics. However, the Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers such as commitments to extend credit and letters of credit. Commitments to extend credit and letters of credit are not recorded as an asset by the Company until the commitment is accepted and funded or the letter of credit is exercised.

Table of Contents

The Company's net income and economic value of equity (EVE), in the normal course of business, are exposed to interest rate risk, and can vary based on changes in the general level of interest rates. All financial products carry some amount of interest rate risk, and substantial portions of both the Company's assets and liabilities are financial products. These include investment securities, loans, deposits and borrowed money. Off-balance sheet items, such as loan commitments, letters of credit, commitments to buy or sell loans or securities, and derivative financial instruments, also carry some amount of interest rate risk.

The Funds Management Committee generally uses three types of analysis in measuring and reviewing the Company's interest rate sensitivity. These are Static GAP analysis, Dynamic Gap Analysis and EVE. The Static GAP analysis measures assets and liabilities as they reprice in various time periods and is discussed under the heading of Asset/Liability Management on page 22 of the 2005 Annual Report to Shareholders.

The economic value of equity calculation uses information about the Company's assets, liabilities and off-balance sheet items, market interest rate levels and assumptions about the behavior of the assets and liabilities, to calculate the Company's equity value. The economic value of equity is the market value of assets minus the market value of liabilities, adjusted for off-balance sheet items divided by the market value of assets. The economic value of equity is then subjected to immediate and permanent upward changes of 300 basis points in market interest rate levels and a downward change of 200 basis points, in 100 basis point increments. The resulting changes in equity value and net interest income at each increment are measured against pre-determined, minimum EVE ratios for each incremental rate change, as approved by the board in the interest rate risk policy.

The following table presents the Bank's EVE ratios for the various rate change levels at March 31, 2006 and December 31, 2005:

| | EVE Ratios | |
|---------------------------|----------------------|-------------------------|
| | March 31, 2006 | December 31, 2005 |
| Changes in Interest Rates | | |
| 300 basis point rise | 8.14% | 7.60% |
| 200 basis point rise | 8.08% | 7.43% |
| 100 basis point rise | 8.00% | 7.33% |
| Base rate scenario | 7.36% | 6.86% |
| 100 basis point decline | 5.92% | 5.24% |
| 200 basis point decline | 4.27% | 3.60% |

The preceding table indicates that in the event of an immediate and permanent increase in prevailing market interest rates, the Bank's EVE ratio, would be expected to increase and that in the event of an immediate and permanent decrease in prevailing market interest rates, the Bank's EVE ratio would be expected to decrease.

The EVE increases in a rising rate scenario because the Company is asset sensitive and would have more interest earning assets repricing than interest-bearing liabilities. This effect is increased by periodic and lifetime limits on changes in rate on most adjustable-rate, interest-earning assets. The EVE decreases in a falling rate scenario because of the limits on the Company's ability to decrease rates on some of its deposit sources, such as money market accounts and NOW accounts, and by the ability of borrowers to repay loans ahead of schedule and refinance at lower rates.

Table of Contents

The EVE ratio is calculated by the Company's fixed income investment advisor, and reviewed by management, on a quarterly basis utilizing information about the Company's assets, liabilities and off-balance sheet items, which is provided by the Company. The calculation is designed to estimate the effects of hypothetical rate changes on the EVE, utilizing projected cash flows, and is based on numerous assumptions, including relative levels of market interest rates, loan prepayment speeds and deposit decay rates. Actual changes in the EVE, in the event of market interest rate changes of the type and magnitude used in the calculation, could differ significantly. Additionally, the calculation does not account for possible actions taken by Funds Management to mitigate the adverse effects of changes in market interest rates.

ITEM 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2006. Based on that evaluation, the Company's management, including the Chief Executive Officer and the principal financial officer, concluded that the Company's disclosure controls and procedures were effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2006, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

CENTRUE FINANCIAL CORPORATION

PART II OTHER INFORMATIONItem 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or the Bank is a party other than ordinary routine litigation incidental to their respective businesses.

Item 1A. Risk Factors

There were no material changes to the risk factors as presented in Part I, Item 1A. Risk Factors in the Company's annual report on Form 10-K for the year ended December 31, 2005.

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

The following table sets forth information about our stock repurchases for the three months ended March 31, 2006:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|--------------------------------|---|---|---|---|
| January 1 - January 31, 2006 | 8,000 | \$ 26.76 | 8,000 | 259,298 |
| February 1 - February 28, 2006 | 6,000 | 26.80 | 6,000 | 253,298 |
| March 1 - March 31, 2006 | 4,250 | 26.30 | 4,250 | 249,048 |
| Total | 18,250 | \$ 26.66 | 18,250 | 249,048 |

(1) The Company announced its original stock repurchase program on October 21, 2004, which authorizes the Company to purchase up to 20% of the shares outstanding, or 484,663. The plan which would have expired on December 31,

2005, was extended through December 31, 2006. The Company purchased all of the shares listed above on the open market and under the repurchase program.

Item 3. Defaults Upon Senior Securities

None

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

The Annual Meeting of Stockholders of the Company was held on April 28, 2006. At the meeting, stockholders voted to approve the election of Thomas A. Daiber, Randall E. Ganim and Mark L. Smith as directors of the Company. Michael J. Hejna will continue to serve as director until 2008 and Michael A. Griffith will continue to serve as a director until 2007. Stockholders also voted to approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2006.

The matters approved by stockholders at the meeting and the number of votes cast for, against or withheld (as well as the number of abstentions) as to each matter are set forth below:

26

Table of Contents

1. For the election of three (3) directors of the Company:

NOMINEE: Thomas A. Daiber

| | |
|------------|----------------|
| FOR | ABSTAIN |
| 1,989,373 | 29,605 |

NOMINEE: Randall E. Ganim

| | |
|------------|----------------|
| FOR | ABSTAIN |
| 1,982,528 | 36,450 |

NOMINEE: Mark L. Smith

| | |
|------------|----------------|
| FOR | ABSTAIN |
| 1,992,679 | 26,299 |

2. To approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2006.

| | | | |
|------------|----------------|----------------|-----------------------------|
| FOR | AGAINST | ABSTAIN | BROKER NON-VOTES |
| 2,004,933 | 8,461 | 5,584 | |

Item 5. Other Information

None

Item 6. Exhibits

a. Exhibits

31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

CENTRUE FINANCIAL CORPORATION

SIGNATURES

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

CENTRUE FINANCIAL CORPORATION
Registrant

Date: May 12, 2006

/s/ THOMAS A. DAIBER

President and Chief Executive Officer

Date: May 12, 2006

/s/ JOHN A. BETTS

Corporate Controller and Interim
Principal Financial Officer