

CENTRUE FINANCIAL CORP

Form 10-Q

May 13, 2005

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**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, 2005.**

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)

**310 South Schuyler Avenue, Kankakee, Illinois**

**60901**

(Address of Principal Executive Offices)

(Zip Code)

**(815) 937-4440**

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of May 11, 2005, there were 2,437,260 issued and outstanding shares of the Issuer's common stock.

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CENTRUE FINANCIAL CORPORATION

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	<b>March 31 2005</b>	<b>December 31 2004</b>
	(dollars in thousands)	
Assets		
Cash and due from banks	\$ 10,912	\$ 10,760
Interest bearing due from banks and other	3,828	2,526
Cash and cash equivalents	14,740	13,286
Certificates of Deposit	50	149
Investment Securities available-for-sale, at fair value:	117,459	124,763
Loans, net of allowance for loan losses of (\$5,840 and \$5,475)	418,237	418,963
Loans held for sale	318	416
Premises and equipment	19,156	18,267
Goodwill	12,446	12,446
Life insurance contracts	9,201	9,110
Non-marketable equity securities	4,260	4,211
Accrued interest receivable	2,757	2,570
Intangible assets	1,713	1,774
Real estate held for sale	3,156	3,002
Other assets	3,624	2,896
Total Assets	\$ 607,117	\$ 611,853
Liabilities		
Deposits:		
Noninterest bearing	\$ 58,627	\$ 53,919
Interest bearing	407,213	441,858
Total Deposits	465,840	495,777
Short-term borrowings	32,174	14,188
Long-term borrowings	61,990	55,473
Other liabilities	3,801	3,239
Total Liabilities	563,805	568,677
Stockholders' Equity		
Preferred stock, \$.01 par value 500,000 shares authorized and unissued		

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Common stock, \$.01 par value 5,500,000 authorized; 4,200,300 shares issued	42	42
Additional paid-in capital	29,024	28,998
Retained income, partially restricted	45,162	43,925
Accumulated other comprehensive income (loss)	(1,003)	27
Unearned restricted stock (20,400 and 26,400 shares)	(492)	(512)
Treasury stock, (1,822,799 and 1,819,634 shares), at cost	(29,421)	(29,304)
Total Stockholders Equity	43,312	43,176
Total Liabilities and Stockholders Equity	\$ 607,117	\$ 611,853

See notes to the accompanying consolidated financial statements

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Interest income:		
Loans	\$ 6,185	\$ 6,293
Investments		
Taxable	994	861
Tax-exempt	173	79
Deposits with banks and other	8	75
FHLB stock dividends	49	57
<b>Total interest and dividend income</b>	<b>7,409</b>	<b>7,365</b>
Interest expense:		
Deposits	1,927	2,099
Short-term borrowings	55	
Long-term borrowings	742	693
<b>Total interest expense</b>	<b>2,724</b>	<b>2,792</b>
<b>Net interest income</b>	<b>4,685</b>	<b>4,573</b>
Provision for loan losses	250	300
<b>Net interest income after provision for loan losses</b>	<b>4,435</b>	<b>4,273</b>
Noninterest income:		
Fee income	1,099	892
Net gain on sale of securities	183	89
Net gain (loss) on sale of real estate held for sale	1	(7)
Net gain on sale of loans	131	106
Increase in cash surrender value of life insurance	91	100
Other	60	69
<b>Total noninterest income</b>	<b>1,565</b>	<b>1,249</b>
Noninterest expense:		
Compensation and benefits	2,287	2,263
Occupancy, net	387	394
Furniture and equipment	329	335
Advertising	80	64
Data processing	158	163
Telephone and postage	171	129
Amortization of intangibles	61	46
Legal and professional fees	142	236
Other	660	679
<b>Total noninterest expense</b>	<b>4,275</b>	<b>4,309</b>

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Income before income taxes	1,725	1,213
Income tax expense	488	368
Net income	\$ 1,237	\$ 845
Other comprehensive income (loss):		
Change in unrealized gains on available for sale securities, net of related income taxes	(899)	313
Less: reclassification adjustment for gains included in net income net of related income taxes	131	59
Other comprehensive income (loss)	(1,030)	254
Comprehensive income	\$ 207	\$ 1,099
Basic earnings per share	\$ 0.52	\$ 0.33
Diluted earnings per share	\$ 0.52	\$ 0.33
Dividends per share	\$	\$ .075

See notes to the accompanying consolidated financial statements

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Operating activities		
Net income	1,237	\$ 845
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	250	300
Depreciation and amortization	429	381
Net amortization on investments	62	(37)
Amortization of intangibles	61	46
Deferred income taxes	(74)	828
Origination of loans held for sale	(6,162)	(5,985)
Proceeds from sales of loans held for sale	6,391	5,024
Gain on sale of loans	(131)	(106)
Gain on sale of securities, net	(183)	(89)
(Gain) loss on sale of real estate held for sale	(1)	7
Compensation expense for restricted stock	20	98
Increase in cash surrender value of life insurance	(91)	(100)
Federal Home Loan Bank stock dividends	(49)	(53)
Changes in:		
Accrued interest receivable	(187)	(125)
Other assets and other liabilities, net	496	1,104
Net cash provided by operating activities	2,068	2,138
Investing activities		
Purchases of available for sale securities	(9,786)	(28,289)
Proceeds from sales of available for sale securities	11,014	3,948
Proceeds from maturities of available for sale securities	4,578	6,580
Proceeds from maturities of held-to-maturity securities		210
Proceeds from maturities of certificates of deposit	99	
Proceeds from sales of real estate held for sale	42	197
Purchase of Parish Bank and Trust Company		38
Net decrease in loans	281	7,494
Purchases of bank premises and equipment	(1,318)	(249)
Net cash provided by (used) in investing activities	4,910	(10,071)
Financing activities		
Net decrease in deposits	(29,936)	(5,375)
Net change in short term borrowings	17,986	
Proceeds of long-term borrowings	19,905	
Repayments of long-term borrowings	(13,388)	(12,488)
Proceeds from exercise of stock options	61	94
Dividends paid		(195)



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Purchase of treasury stock	(152)	(89)
Net cash used by financing activities	(5,524)	(18,053)
Net increase (decrease) in cash and cash equivalents	1,454	(25,986)
Cash and cash equivalents beginning of year	13,286	45,605
Cash and cash equivalents end of period	\$ 14,740	\$ 19,619

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands)	
Supplemental disclosure of cash flow information		
Interest paid	\$ 2,584	\$ 2,602
Income taxes paid		
Real estate acquired in settlement of loans	195	519
Acquisition of Parish Bank and Trust Company:		
Cash paid		\$ 4,400
Cost incurred		123
Total cost		\$ 4,523
Assets acquired:		
Cash and cash equivalents		\$ (4,561)
Certificates of Deposit		(298)
Investments		(8,616)
Nonmarketable equity securities		(85)
Loans, net		(7,342)
Interest receivable		(104)
Premises and equipment		(269)
Goodwill		(1,013)
Intangibles		(774)
Other assets		(72)
Liabilities assumed:		
Non-interest bearing deposits		5,462
Interest-bearing deposits		13,062
Other liabilities		87
Net assets acquired		\$ (4,523)
Cash acquired, net of cash paid		\$ 38

See notes to the accompanying consolidated financial statements

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2005

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, 2004 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, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2004.

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, and real estate acquired in connection with foreclosures or in satisfaction of loans. 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 2004 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2005.

The Company has a stock-based employee compensation plan, which is described more fully in the Company's annual report on Form 10-K for the year ended December 31, 2004. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:



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	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(dollars in thousands, except per share data)	
Net income, as reported	\$ 1,237	\$ 845
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	49	39
Pro forma net income	\$ 1,188	\$ 806
Earnings per share:		
Basic as reported	\$ 0.52	\$ 0.33
Basic pro forma	0.50	0.31
Diluted as reported	0.52	0.33
Diluted pro forma	0.50	0.31

There have been no options granted during the first quarter of 2005. The fair value of options granted in the first quarter of 2004 have been estimated using the Black-Scholes option-pricing model with the following weighted average assumptions.

	<b>Three Months Ended March 31, 2004</b>
Number of options granted	5,500
Risk-free interest rate	4.06%
Expected life, in years	10
Expected volatility	21.99%
Expected dividend yield	1.25%
Estimated weighted average fair value per option	\$ 9.36

**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.

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	<b>Three Months Ended March 31</b>	
	<b>2005</b>	<b>2004</b>
	(Dollars in thousands, except per share data)	
Basic		
Net Income	\$ 1,237	\$ 845
Average common shares outstanding	2,359,235	2,580,331
Net income per common share basic	\$ 0.52	\$ 0.33
Diluted		
Net Income	\$ 1,237	\$ 845
Average common shares outstanding	2,359,235	2,580,331
Dilutive potential due to stock options	10,014	9,678
Average common shares outstanding	2,369,249	2,590,009
Net income per common share diluted	\$ 0.52	\$ 0.33

**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, 2005 (in thousands):

Years Ended December 31,	<b>Time</b>	<b>Long-term</b>	<b>Total</b>
	<b>Deposits</b>	<b>Borrowings</b>	
2005	\$ 142,836	\$ 30,239	\$ 173,075
2006	54,661	9,341	64,002
2007	17,036	11,449	28,485
2008	10,776	156	10,932
2009	4,544	10,165	14,709
thereafter	1,899	640	2,539

Total	\$ 231,752	\$	61,990	\$ 293,742
Financial instruments whose contract amounts represent credit risk:				
Commitment to originate loans				\$ 13,359
Commitments to extend credit				61,295
Standby letters of credit				9,227
Total				\$ 377,623

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(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 years 2008 and 2011 which are callable in 2005 and variable rate prepayable advances of \$20 million maturing in 2006. Trust preferred debentures of \$10 million mature in both 2032 and 2034, but are callable in 2007 and 2009.

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## Note 4 Investments

Continuous gross unrealized losses of investments in debt and equity securities as of March 31, 2005 (in thousands) which are classified as temporary were as follows:

Description of Securities	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing greater than 12 months		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
	U.S. government agencies	\$ 64,392	\$ 1,008	\$	\$	\$ 64,392
Municipals	13,031	338	8,155	267	21,186	605
Mortgage backed securities	5,048	62	4,142	25	9,190	87
Corporate			1,951	120	1,951	120
<b>Total temporarily impaired securities</b>	<b>\$ 82,471</b>	<b>\$ 1,408</b>	<b>\$ 14,258</b>	<b>\$ 412</b>	<b>\$ 96,719</b>	<b>\$ 1,733</b>

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.

## 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 wholly-owned 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 6.00% and 5.68% at March 31, 2005) per annum of the stated liquidation amount of \$1,000 per preferred security. Interest expense on the trust preferred securities was \$299,000 and \$238,000 for the three months ended March 31, 2005 and 2004, respectively. 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.

On March 1, 2005, the Board of Governors of the Federal Reserve System issued a final rule regarding the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter standards. As a result of the final rule, the Federal Reserve will limit the aggregate amount of a bank holding company's cumulative



perpetual preferred stock, trust preferred securities and other minority interests to 25% of a company's core capital elements, net of goodwill. Regulations in place at the time the Company placed its currently outstanding trust preferred securities did not require the deduction of goodwill. The final rule also provides that amounts of qualifying trust preferred securities and certain minority interests in excess of the 25% limit may be included in Tier 2 capital but will be limited, together

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with subordinated debt and limited-life preferred stock, to 50% of Tier 1 capital effective March 31, 2009. The final rule provides a five-year transition period for bank holding companies to meet these quantitative limitations. While management does not anticipate that the final rule will have an impact on the Company when the five-year transition period expires, it is not possible to predict the final impact of the rule at the present time.

Note 6 Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ( FASB ) published FASB Statement No. 123 (revised 2004), Share-Based Payment ( FAS 123(R) or the Statement ). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. (Modifications of share-based payments will be treated as replacement awards with the cost of the incremental value recorded in the financial statements.)

On April 14, 2005, the Securities and Exchange Commission ( SEC ) adopted a new rule that amends the compliance dates for Financial Accounting Standards Board s Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS No. 123R ). Under the new rule, the Company is required to adopt SFAS No. 123R in the first quarter of fiscal 2006, beginning January 1, 2006. The Company has not yet determined the method of adoption or the effect of adopting SFAS No. 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123.

On September 30, 2004, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) Emerging Issues Task Force ( EITF ) Issue No. 03-1-1 delaying the effective date of paragraphs 10-20 of EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which provides guidance for determining the meaning of other-than-temporarily impaired and its application to certain debt and equity securities within the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Company can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment which might mean maturity. The delay of the effective date of EITF 03-1 will be superceded concurrent with the final issuance of proposed FSP Issue 03-1-a. Proposed FSP Issue 03-1-a is intended to provide implementation guidance with respect to all securities analyzed for impairment under paragraphs 10-20 of EITF 03-1. Management continues to closely monitor and evaluate how the provisions of EITF 03-1 and proposed FSP Issue 03-1-a will affect the Company.

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Note 7. Subsequent Events

On April 8, 2005, the Company acquired for cash and stock all of the outstanding shares of Illinois Community Bancorp, Inc. ( ICB ) for a total cost of \$3.3 million. The acquisition will be accounted for using the purchase method of accounting. As such, the results of operations of the acquired entity will be 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. This acquisition is not considered material to the Company as a whole and therefore, proforma information will not be included. It is anticipated that Illinois Community Bank, will be run as a separate banking subsidiary until merged into Centrue Bank during the third quarter of 2005.

ITEM 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 main office of Centrue Bank at 310 South Schuyler Avenue, Kankakee, Illinois and nineteen branch offices, as well as through its newly acquired subsidiary, Illinois Community Bank, located in Effingham, Illinois. The Company's market areas include western Indiana, central and southern Illinois, and the metropolitan St. Louis, Missouri markets. 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 has approximately 172 full time equivalent employees.

FINANCIAL CONDITION

The Company's total assets were \$607.1 million at March 31, 2005, a decrease of \$4.8 million, or 0.8%, from \$611.9 million at December 31, 2004. The decrease in total assets was primarily due to funds used for repayments on higher rate borrowings and reductions of higher rate certificates of deposit. Fluctuations in asset accounts included an increase in cash and cash equivalents of \$1.5 million, premises and equipment of \$889,000 and other assets of \$728,000. These increases were partially offset by a decrease in investment securities of \$7.3 million and a decrease in net loans including loans held for sale of \$824,000.

Cash and cash equivalents increased \$1.5 million, or 11.3%, to \$14.7 million from \$13.3 million. Investment securities decreased \$7.3 million, or 5.9%, to \$117.5 million from \$124.8 million. The increase in cash and cash equivalents and the decrease in investment securities was primarily a result of short-term funding and liquidity needs.

Premises and equipment increased \$889,000, or 4.9%, primarily due to costs associated with the construction of the Company's new facility in Fairview Heights, Illinois. The facility is expected to be completed in the second quarter of 2005.

Other assets increased \$728,000, or 25.2%, to \$3.6 million from \$2.9 million. The increase in other assets was primarily due to an increase in deferred taxes. The increase in deferred taxes was primarily due to temporary changes in the Company's tax position as well as unrealized losses on available for sale securities.

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Deposits decreased \$29.9 million or 6.0% to \$465.8 million from \$495.8 million. The decrease in deposits was primarily attributable to a \$26.7 million reduction in certificates of deposit partially offset by an increase in DDA accounts of \$4.7 million. The decrease in certificates of deposit is partially due to efforts by the Company to restructure its deposit mix as well as a decrease in public fund deposits.

Short-term borrowings increased \$18.0 million, or 126.8%, to \$32.2 million from \$14.2 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 \$4.6 million, federal funds purchased of \$3.5 million, and open-line borrowings from the FHLB of \$9.9 million. The increase in short-term borrowings was primarily due to short-term liquidity needs.

Long-term borrowings increased \$6.5 million, or 11.7%, to \$62.0 million from \$55.5 million. Long-term borrowings include advances from the FHLB, term repurchase agreements, junior subordinated debt owed to unconsolidated trusts, and notes payable. The increase in long-term borrowings was due to an increase in FHLB advances, partially offset by a decrease in term repurchase agreements.

Stockholders' equity increased \$136,000 or 0.3% to \$43.3 million from \$43.2 million at December 31, 2004. The increase in stockholders' equity was primarily due to net income, partially offset by a decrease in accumulated other comprehensive income of \$1.0 million. Equity per share of common stock increased by \$0.08 to \$18.22 at March 31, 2005 from \$18.14 at December 31, 2004.

**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 \$837,000 and accruing loans delinquent 90 days or more increased \$809,000. These fluctuations were primarily due to one large commercial borrower that was brought back to accrual status due to a pending sale of property which would repay all principal and interest due. The sale was completed in early April. During the quarter, the Company entered into a contract to sell its primary foreclosed asset which had a book value of \$2.9 million at March 31, 2005. The contract allows the Bank to sell the property and receive net proceeds approximately equal to its carrying value and redeploy these funds into earning assets. The sale is expected to close in the third quarter. Management is in various stages of workout or liquidation with the remaining nonperforming loans.

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	March 31 2005	December 31 2004	Change
	(dollars in thousands)		
Non-accruing loans	\$ 5,932	\$ 6,769	\$ (837)
Accruing loans delinquent 90 days or more	1,031	222	809
Total nonperforming loans	6,963	6,991	(28)
Foreclosed assets	3,156	3,002	154
Troubled debt restructuring	41	42	(1)
Total nonperforming assets	\$ 10,160	\$ 10,035	\$ 125
Allowance for loan losses to total loans	1.37%	1.29%	
Allowance for loan losses to nonperforming loans	83.87%	78.32%	
Nonperforming loans to total loans	1.64%	1.65%	
Nonperforming assets to total loans and foreclosed property	2.37%	2.35%	
Nonperforming assets to total assets	1.67%	1.64%	

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 1.37% and 1.29% at March 31, 2005 and December 31, 2004, respectively. The ratio of the allowance for loan losses to non-performing loans increased to 83.87% as of March 31, 2005 compared to 78.32% at December 31, 2004. The increase in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of an increase of \$365,000 in the allowance for loan losses.

Total classified loans at March 31, 2005 decreased to \$18.1 million compared to \$19.4 million at December 31, 2004. The Company has adopted a new loan policy and implemented new loan approval, documentation and monitoring processes. The Company has also recruited and employed an experienced commercial lending team including three new regional presidents, each of whom is an experienced commercial lender, as well as two other seasoned commercial lenders. 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. These initiatives have already had a positive impact on the monitoring of the loan portfolio. The Company will continue to attempt to improve the loan monitoring processes.

The Company recognized charge offs in the amount of \$77,000 during the first quarter of 2005 and had no chargeoffs during the first quarter of 2004. Recoveries totaled \$192,000 for 2005 and no recoveries were recorded for 2004. The provision for loan losses totaled \$250,000 and \$300,000 during the first quarters of 2005 and 2004.

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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, 2005 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. All installment loans that are 90 to 120 days past due are charged off 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, real estate held for sale 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

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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.

**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 prepayments speeds of the underlying mortgages serviced. Net income could be affected if management's assumptions and estimates differ from actual prepayments.

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.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2005 AND 2004

For the three months ended March 31, 2005, net income increased \$392,000 to \$1.2 million from \$845,000 for the three months ended March 31, 2004. The increase in net income was primarily due to an increase in net interest income of \$112,000 and noninterest income of \$316,000, partially offset by an increase in income tax expense of \$120,000.

Net interest income for the quarter increased \$112,000 or 2.4% to \$4.7 million, from \$4.6 million in 2004. Interest income increased by \$44,000 and interest expense decreased by \$68,000. Net interest margin increased to 3.56% compared to 3.32% for 2004. The increase in the net interest margin was primarily a result of the Company's effort to replace lower earning assets, such as federal funds sold, with commercial loans and tax-advantaged investments as well as a disciplined strategy to improve our deposit mix.



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

	Three Months Ended March 31,					
	Average Outstanding Balance	2005 Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	2004 Interest Earned/ Paid	Yield/ Rate
(Dollars in Thousands)						
Interest-earning assets:						
Loans receivable (1) (3)	\$ 418,584	\$ 6,206	6.01%	\$ 430,213	\$ 6,315	5.93%
Investments securities (2) (3)	118,761	1,237	4.22%	94,588	976	4.13%
Other interest-earning assets	2,370	8	1.37%	33,658	75	0.90%
FHLB stock	3,612	49	5.50%	3,323	57	6.81%
Total interest-earning assets	543,327	7,500	5.60%	561,782	7,423	5.33%
Other assets	57,770			49,038		
Total assets	\$ 601,097			\$ 610,820		
Interest-bearing liabilities:						
Certificate accounts	\$ 243,751	1,576	2.62%	\$ 272,039	1,759	2.60%
Savings deposits	88,721	133	0.61%	87,635	147	0.68%
Demand and NOW deposits	88,476	218	1.00%	87,441	193	0.89%
Customer repurchase agreements	11,814	55	1.89%			
Borrowings	64,148	742	4.69%	62,586	693	4.51%
Total interest-bearing liabilities	496,910	2,724	2.22%	509,701	2,792	2.21%
Non-interest bearing demand deposits	58,018			50,368		
Other liabilities	2,438			4,662		
Total liabilities	557,366			564,731		
Stockholders equity	43,731			46,089		
Total liabilities and stockholders equity	\$ 601,097			\$ 610,820		
Net interest income		\$ 4,776			\$ 4,631	

Net interest rate spread		3.38%	3.12%
Net earning assets	\$ 46,417	\$ 52,081	
Net yield on average interest-earning assets (net interest margin)		3.56%	3.32%
Average interest-earning assets to average interest-bearing liabilities	109.34%	110.22%	

- (1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process 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%.

Interest income increased \$44,000, to \$7.4 million. The increase was primarily attributable to an increase in interest rates, partially offset by a decrease in average earning assets. Average earning assets decreased \$18.5 million to \$543.3 million from \$561.8 million in 2004. The average tax equivalent rate earned on earning assets increased 27 basis points to 5.60% from 5.33%. The increase in the yield earned on interest-earning assets was the result of the

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gradual change in the loan mix from real estate loans to commercial loans. Average real estate loans decreased \$44.5 million and average commercial loans increased \$33.4 million. The decrease in the average balance of interest-earning assets was primarily due to \$20.2 million of long-term fixed rate mortgage loans which were sold during 2004. The loans were sold as part of the Company's asset liability policy.

Interest expense decreased \$68,000 to \$2.7 million from \$2.8 million in 2004. The decrease was primarily attributable to a decrease in the average balance of interest bearing liabilities, partially offset by an increase in the rate paid on average interest bearing liabilities. The rate paid on interest bearing liabilities increased 1 basis point to 2.22% from 2.21% in 2004. Average interest-bearing liabilities decreased \$12.8 million to \$496.9 million from \$509.7 million. The decrease in average interest-bearing liabilities was primarily attributable to a decrease in certificates of deposit. The Company has been actively working to reduce its cost of funds through improving the overall deposit mix, which has included decreasing the level of certificates of deposit. The increase in the average yield on interest-bearing liabilities resulted from increasing market interest rates.

	Three Months Ended		Change	
	March 31		Amount	Percent
	2005	2004		
	(dollars in thousands)			
Noninterest income:				
Fee income	\$ 1,099	\$ 892	\$ 207	23.2%
Net gain (loss) on sale of securities	183	89	94	105.6
Net gain on sale of real estate held for sale	1	(7)	8	114.3
Net gain on sale of loans	131	106	25	23.6
Increase in cash surrender value of life insurance	90	100	(10)	(10.0)
Other	61	69	(8)	(11.6)
Total	\$ 1,565	\$ 1,249	\$ 316	25.3%

Noninterest income increased \$316,000 to \$1.6 million from \$1.2 million in 2004. The increase was primarily attributable to an increase in fee income of \$207,000 and gain on sale of securities of \$94,000. The increase in fee income was primarily due to the overdraft protection program that was implemented during the third quarter of 2004. The gain on sale of securities was part of our asset liability management.

	Three Months Ended		Change	
	March 31		Amount	Percent
	2005	2004		
	(dollars in thousands)			
Noninterest expense:				
Compensation and benefits	\$ 2,287	\$ 2,263	\$ 24	1.1%
Occupancy, net	387	394	(7)	(1.8)
Furniture and equipment	329	335	(6)	(1.8)
Advertising	80	64	16	25.0
Data processing	158	163	(5)	(3.1)
Telephone and postage	171	129	42	32.6
Amortization of Intangibles	61	46	15	32.6
Legal and professional fees	142	236	(94)	(39.8)

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Other	660	679	(19)	(2.8)
Total	\$ 4,275	\$ 4,309	\$ (34)	(0.8)%

Noninterest expense remained stable with a decrease of \$34,000 compared to 2004. There were no significant changes in any of the major noninterest expense categories. Several cost control initiatives were instituted in late 2003 and early 2004 which have helped us control our

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costs and maintain our level of noninterest expense.

Income tax expense increased \$120,000 to \$488,000 from \$368,000 in 2004, although the effective income tax rate decreased to 28.3% from 30.3%. The decrease in the effective rate was primarily due to an increase in tax-exempt income from municipal securities.

**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, 2005, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of March 31, 2005, 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.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of March 31, 2005						
Tier 1 Capital to Average Assets						
Centrue Financial	44,929	7.31%	24,575	4.00%	N/A	
Centrue Bank	46,418	8.01%	23,171	4.00%	28,964	5.00%
Tier I Capital to Risk Weighted Assets						
Centrue Financial	44,929	10.76%	16,702	4.00%	N/A	
Centrue Bank	46,418	11.24%	16,522	4.00%	24,783	6.00%
Total Capital to Risk Weighted Assets						
Centrue Financial	55,384	13.26%	33,404	8.00%	N/A	
Centrue Bank	51,589	12.49%	33,044	8.00%	41,305	10.00%

As of December 31, 2004

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Tier 1 Capital to Average Assets						
Centrue Financial	43,312	7.32%	23,674	4.00%	N/A	
Centrue Bank	45,656	7.81%	23,382	4.00%	29,227	5.00%
Tier I Capital to Risk Weighted Assets						
Centrue Financial	43,312	11.01%	15,742	4.00%	N/A	
Centrue Bank	45,656	11.32%	16,136	4.00%	24,204	6.00%
Total Capital to Risk Weighted Assets						
Centrue Financial	53,857	13.69%	31,483	8.00%	N/A	
Centrue Bank	50,703	12.57%	32,272	8.00%	40,340	10.00%

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**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. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

The strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company's assets.

The economic impact of past and any future terrorist threats and attacks, acts of war or threats thereof, and the response of the United States to any such threats and attacks.

The effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters.

The effects of changes in interest rates (including the effects of changes in the rate of prepayments of the Company's assets) and the policies of the Board of Governors of the Federal Reserve System.

The ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector.

The inability of the Company to obtain new customers and to retain existing customers.

The timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet.

Technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers.

The ability of the Company to develop and maintain secure and reliable electronic systems.

The ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner.

Consumer spending and saving habits which may change in a manner that affects the Company's business adversely.

Business combinations and the integration of acquired businesses which may be more difficult or expensive than expected.

The costs, effects and outcomes of existing or future litigation.



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Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board.

The ability of the Company to manage the risks associated with the foregoing as well as anticipated. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

**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.

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 economic value of equity. 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 21 of the 2004 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



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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, in 100 basis point increments, and a downward change of 100 basis points. 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, 2005 and December 31, 2004:

	EVE Ratios	
	March 31, 2005	December 31, 2004
Changes in Interest Rates		
300 basis point rise	7.84%	7.54%
200 basis point rise	8.08%	7.88%
100 basis point rise	8.13%	8.06%
Base rate scenario	7.87%	7.91%
100 basis point decline	6.49%	6.60%

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.

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 the funds management committee to mitigate the adverse effects of changes in market interest rates.

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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, Chief Financial Officer and Corporate Controller, 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, 2005. Based on that evaluation, the Company's management, including the Chief Executive Officer, Chief Financial Officer and Corporate Controller, concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the Company's internal controls or in other factors that have materially affected or that are reasonably likely to materially affect internal controls.

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## CENTRUE FINANCIAL CORPORATION

**PART II OTHER INFORMATION**Item 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 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, 2005:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1 - January 31, 2005	5,365	\$ 28.35	45,365	439,298
February 1 - February 28, 2005				439,298
March 1 - March 31, 2005				439,298
<b>Total</b>	<b>5,365</b>	<b>\$ 28.35</b>	<b>45,365</b>	<b>439,298</b>

(1) The Company announced its current stock repurchase program on October 21, 2004, which authorizes the Company to purchase up to 20% of the shares outstanding, or 484,663 shares. The plan will expire on December 31, 2005. 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 22, 2005. At the meeting, stockholders voted to approve the election of Michael J. Hejna as a director of the Company until 2008. Thomas A. Daiber, Mark L.

Smith and Wesley E. Walker will continue to serve as directors until 2006 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, 2005.

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:

1. For the election of one (1) director of the Company:

NOMINEE: Michael J. Hejna

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<b>FOR</b>	<b>WITHHELD</b>
2,255,303	32,552

2. To approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2005.

<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>	<b>BROKER NON-VOTES</b>
2,279,577	4,862	3,416	

Item 5. Other Information

None

Item 6. Exhibits

a. Exhibits

- 10.1 Amendment No. 1 to the Centrue Financial Corporation 2003 Stock Incentive Plan
- 10.2 Addendum to Incentive Stock Option Agreement between Centrue Financial Corporation and Keith M. Roseland
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.3 Certification of Corporate Controller 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 Chief Financial 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 Corporate Controller Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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, 2005

/s/ THOMAS A. DAIBER

President and Chief Executive Officer

Date: May 12, 2005

/s/ JAMES M. LINDSTROM

Chief Financial Officer and  
Senior Vice President

Date: May 12, 2005

/s/ JOHN A. BETTS

Vice President and  
Corporate Controller