

CENTRUE FINANCIAL CORP
Form 10-K
March 13, 2009

Securities And Exchange Commission
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008
Commission File Number: **0-28846**

Centrue Financial Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Title of Exchange Class	Name of Each Exchange which Registered
Common Stock (\$1.00 par value)	The NASDAQ Stock Market
Securities registered pursuant to Section 12(g) of the Act: None	

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act. Yes No

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b of the Exchange Act).

Yes No .

As of February 23, 2009, the Registrant had issued and outstanding 6,028,491 shares of the Registrant's Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2008, the last business day of the Registrant's most recently completed second quarter, was \$56,676,633.*

* Based on the last reported price of \$11.04 of an actual transaction in the Registrant's Common Stock on June 30, 2008, and reports of beneficial ownership filed by directors and executive officers of the Registrant. Shares of Common Stock held by any executive officer or director of the Registrant have been excluded from the foregoing computation because such persons may be deemed to be affiliates; provided, however, such determination of shares owned by affiliates does not constitute an admission of affiliate status or beneficial interest in shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders (the 2009 Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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

CENTRUE FINANCIAL CORPORATION
Form 10-K Index

		<u>Page</u>
 <u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	14
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	18
<u>Item 2.</u>	<u>Properties</u>	19
<u>Item 3.</u>	<u>Legal Proceedings</u>	19
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	19
 <u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u>	23
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	54
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	54
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	102
<u>Item 9A.</u>	<u>Controls and Procedures</u>	102
<u>Item 9B.</u>	<u>Other Information</u>	102
 <u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	103
<u>Item 11.</u>	<u>Executive Compensation</u>	103
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	103
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	104
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	104
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	104

THIS PAGE INTENTIONALLY

LEFT BLANK

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

PART I

Item 1. Business

THE COMPANY

Centrue Financial Corporation

Centrue Financial Corporation (the Company) is a bank holding company incorporated in Delaware in 1982 for the purpose of becoming a holding company registered under the Bank Holding Company Act of 1956, as amended (the Act). The Company is a publicly traded banking company with assets of \$1.4 billion at year-end 2008 and is headquartered in St. Louis, Missouri. On November 13, 2006, the Company (formerly known as UnionBancorp, Inc. now known as Centrue Financial Corporation) merged with Centrue Financial Corporation (former Centrue), parent of Centrue Bank with the Company being the surviving entity in the merger. Operating results of former Centrue are included in the consolidated financial statements since the date of the acquisition. As a result of this merger, the Company solidified its market share in the northern and central Illinois markets, expanded its customer base to enhance deposit fee income, marketed additional products and services to new customers and reduced operating costs through economies of scale.

The Company operates one wholly owned subsidiary: Centrue Bank (the Bank), employing 302 full-time equivalent employees at December 31, 2008. The Company has responsibility for the overall conduct, direction, and performance of its subsidiary. The Company provides various services, establishes Company-wide policies and procedures, and provides other resources as needed, including capital.

Subsidiary

At December 31, 2008, the Bank had \$1.4 billion in total assets, \$1.0 billion in total deposits, and thirty offices (twenty-eight full-service bank branches and two back-room sales support non-banking facilities) located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area.

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

Competition

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

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

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

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

SUPERVISION AND REGULATION

General

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

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

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply to the Company and its subsidiaries, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. As such, the following is qualified in its entirety by reference to the applicable statutes, regulations and regulatory policies. Any change in applicable law, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries. See also *Recent Developments* under *Management's Discussion and Analysis*.

The Company

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

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

Investments and Activities. Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the other bank or bank holding company (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank; or (iii) merging or consolidating with another bank holding company. Subject to certain conditions (including certain deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States without regard to whether the acquisition is prohibited by the law of the state in which the target bank is located. In approving interstate acquisitions, however, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws which require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

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

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

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

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

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

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

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

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

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

As of December 31, 2008, the Company had regulatory capital as follows:

	Risk-Based Capital Ratio	Leverage Capital Ratio
	_____	_____
Company	12.2%	8.1%

The risk-based capital ratio and the leverage capital ratio were 4.2% and 4.1% respectively, in excess of the Federal Reserve's minimum requirements. See Note 17 in the Notes in Consolidated Financial Statements for further information.

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

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

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

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

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. Sarbanes-Oxley section 404 requires significant oversight of a public company's internal control over the financial statements. For accelerated filers, the rules require them to provide management's report on internal control over financial reporting by December 31, 2008. The rule further requires an accelerated filer to have an external auditor's attestation report on internal control over financial reporting as of December 31, 2008. During 2008, the Company incurred approximately \$178,500 in additional expenses to comply with the provisions of the Sarbanes-Oxley Act.

Recent Developments

The Emergency Economic Stabilization Act of 2008 (EESA) was enacted on October 3, 2008. Pursuant to EESA, the Treasury has the authority to among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Pursuant to its authority under EESA, the Treasury created the TARP CPP under which the Treasury was authorized to invest in non-voting, senior preferred stock of U.S. banks and savings associations or their holding companies.

The Company elected to participate in the CPP and on January 9, 2009, completed the sale of \$32.7 million in preferred shares to the Treasury. The Company issued 32,668 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series C (the Preferred Shares), with a \$1,000 per share liquidation preference, and a warrant to purchase up to 508,320 shares of the Company's common stock at an exercise price of \$9.64 per share (the Warrant).

The Preferred Shares issued by the Company pay cumulative dividends of 5% a year for the first five years and 9% a year thereafter. After three years, the Company may, at its option, redeem the Preferred Shares at their liquidation preference plus accrued and unpaid dividends. Both the Preferred Shares and the Warrant will be accounted for as components of regulatory Tier 1 capital. Among other restrictions, the securities purchase agreement between the Company and the Treasury limits the Company's ability to repurchase its stock and subjects the Company to certain executive compensation limitations. The restrictions on stock repurchases are in effect until the earlier to occur of January 9, 2012 (the third anniversary of the issuance of the Preferred Shares to Treasury) or the date on which the Company has redeemed all of the Preferred Shares issued or the date on which the Treasury has transferred all of the Preferred Shares to third parties not affiliated with the Treasury.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

The American Recovery and Reinvestment Act of 2009 (ARRA) was enacted on February 17, 2009. Among other things, ARRA sets forth additional limits on executive compensation at all financial institutions receiving federal funds under any program, including the CPP, both retroactively and prospectively. The executive compensation restrictions in ARRA, which will be further described in rules and regulations to be established, include among others: limits on compensation incentives, prohibitions on Golden Parachute Payments , the establishment by publicly registered CPP recipients of a board compensation committee comprised entirely of independent directors for the purpose of reviewing employee compensation plans, and the requirement of a non-binding vote on executive pay packages at each annual shareholder meeting until the government funds are repaid. The full impact of the ARRA is not yet certain because additional regulatory action is required.

Centrue Bank

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

Deposit Insurance. As an FDIC-insured institution, Centrue Bank is required to pay deposit insurance premium assessments to the FDIC.

Pursuant to the Federal Deposit Insurance Reform Act of 2005 (the FDIRA) in 2006, the previously separate deposit insurance funds for banks and savings associations were merged into a single deposit insurance fund administered by the FDIC. Centrue Bank s deposits are insured up to applicable limitations by that deposit insurance fund.

Following the adoption of the FDIRA, the FDIC has the opportunity, through its rulemaking authority, to better price deposit insurance for risk than was previously authorized. The FDIC adopted regulations that create a system of risk-based assessments. Under the regulations, there are four risk categories, and each insured institution is assigned to a risk category based on capital levels and supervisory ratings. Well-capitalized institutions with CAMELS composite ratings of 1 or 2 are placed in Risk Category I while other institutions are placed in Risk Categories II, III or IV depending on their capital levels and CAMELS composite ratings. The assessment rates may be changed by the FDIC as necessary to maintain the insurance fund at the reserve ratio designated by the FDIC, which currently is 1.25% of insured deposits. The FDIC may set the reserve ratio annually at between 1.15% and 1.50% of insured deposits. Deposit insurance assessments will be collected for a quarter, at the end of the next quarter. Assessments are based on deposit balances at the end of the quarter, except for institutions with \$1 billion or more in assets, such as Centrue Bank, and any institution that becomes insured on or after January 1, 2007 which will have their assessment base determined using average daily balances of insured deposits.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

As of September 30, 2008, the reserve ratio of the deposit insurance fund fell to 0.76%. On October 7, 2008, the FDIC established a restoration plan to restore the reserve ratio to at least 1.15% within five years (effective February 27, 2009 the FDIC extended this time to seven years) and proposed rules increasing the assessment rate for deposit insurance and making adjustments to the assessment system. On December 16, 2008, the FDIC adopted and issued a final rule increasing the rates banks pay for deposit insurance uniformly by 7 basis points (annualized) effective January 1, 2009. Under the final rule, risk-based rates for the first quarter 2009 assessment will range between 12 and 50 basis points (annualized). The 2009 first quarter assessment rates established by the FDIC provide that the highest rated institutions, those in Risk Category I, will pay premiums of between 12 and 14 basis points and the lowest rated institutions, those in Risk Category IV, will pay premiums of 50 basis points. On February 27, 2009, the FDIC adopted a final rule amending the way that the assessment system differentiates for risk and setting new assessment rates beginning with the second quarter of 2009. Beginning April 1, 2009, for the highest rated institutions, those in Risk Category I, the initial base assessment rate will be between 12 and 16 basis points and for the lowest rated institutions, those in Risk Category IV, the initial base assessment rate will be 45 basis points. The final rule modifies the means to determine a Risk Category I institution's initial base assessment rate. It also provides for the following adjustments to an institution's assessment rate: (1) a decrease for long-term unsecured debt, including most senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) an increase for secured liabilities above a threshold amount; and (3) for institutions in risk categories other than Risk Category I, an increase for brokered deposits above a threshold amount. After applying these adjustments, for the highest rated institutions, those in Risk Category I, the total base assessment rate will be between 7 and 24 basis points and for the lowest rated institutions, those in Risk Category IV, the total base assessment rate will be between 40 and 77.5 basis points.

On February 27, 2009, the FDIC also adopted an interim rule, with a request for comments, that imposes an emergency special assessment of up to 20 basis points of an institution's assessment base as of June 30, 2009, which will be collected on September 30, 2009. This interim rule also provides for possible additional special assessments of up to 10 basis points at the end of any calendar quarter whenever the FDIC estimates that the deposit insurance fund reserve ratio will fall to a level that the FDIC believes would adversely affect public confidence or to a level close to zero or negative.

On November 21, 2008, the FDIC adopted final regulations implementing the Temporary Liquidity Guarantee Program (TLGP) pursuant to which depository institutions could elect to participate. Pursuant to the TLGP, the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008 and before June 30, 2009 (the Debt Guarantee), and (ii) provide full FDIC deposit insurance coverage for non-interest bearing deposit transaction accounts regardless of dollar amount for an additional fee assessment by the FDIC (the Transaction Account Guarantee). These accounts are mainly payment-processing accounts, such as business payroll accounts. The Transaction Account Guarantee will expire on December 31, 2009. Participating institutions will be assessed a 10 basis point surcharge on the portion of eligible accounts that exceeds the general limit on deposit insurance coverage.

Coverage under the TLGP was available to any eligible institution that did not elect to opt out of the TLGP on or before December 5, 2008. Centrue Bank did not opt out of the Transaction Account Guarantee portion of the TLGP. The Company and Centrue Bank opted out of the Debt Guarantee program.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

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

FICO Assessments. FDIC insured institutions are also subject to assessments to cover interest payments due on the outstanding obligations of the Financing Corporation (FICO). FICO was created in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance until the final maturity of the outstanding FICO obligations in 2019. FDIC insured institutions will share the cost of the interest on the FICO bonds on a pro rata basis. During the year ended December 31, 2008, the FICO assessment rate for DIF members ranged between approximately 0.0110% of deposits and approximately 0.0114% of deposits. During the year ended December 31, 2008, Centrue Bank paid FICO assessments totaling \$115,866. For the first quarter of 2009, the rate established by the FDIC for the FICO assessment is 0.0114% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the IDFPF to fund the operations of the IDFPF. The amount of the assessment is calculated based on the institution's total assets, including consolidated subsidiaries, as reported to the IDFPF. During the year ended December 31, 2008, Centrue Bank paid supervisory assessments to the IDFPF totaling \$195,845.

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

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations of the Federal Reserve provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

During the year ended December 31, 2008, Centrue Bank was not required by the Federal Reserve to increase its capital to an amount in excess of the minimum regulatory requirement. As of December 31, 2008, Centrue Bank had regulatory capital as follows:

	Risk-Based Capital Ratio	Leverage Capital Ratio
Centrue Bank	12.8%	9.4%

The risk-based capital ratio and the leverage capital ratio are 4.8% and 5.4% in excess of the Federal Reserve's minimum requirements. See Note 17 in the Notes in Consolidated Financial Statements for further information.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the institution to submit a capital restoration plan; limiting the institution's asset growth and restricting its activities; requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; restricting transactions between the institution and its affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution. As of December 31, 2008, Centrue Bank was considered well capitalized.

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

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

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, Centrue Bank exceeded its minimum capital requirements under applicable guidelines and had approximately \$3.49 million available to be paid as dividends to the Company as of December 31, 2008. Notwithstanding the availability of funds for dividends, however, the Federal Reserve may prohibit the payment of any dividends by Centrue Bank if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

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

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

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

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Riegle-Neal Act), both state and national banks are allowed to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. Illinois law permits interstate mergers, subject to certain conditions, including a prohibition against interstate mergers involving an Illinois bank that has been in existence and continuous operation for fewer than five years.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed by the Riegle-Neal Act only if specifically authorized by state law. Certain states permit out-of-state banks to establish de novo branches or acquire branches from another bank although the laws of some of these states require a reciprocal provision under the law of the state where the bank establishing or acquiring the branch is chartered. Illinois law permits out-of-state banks to establish branches in Illinois in this manner, and Illinois-chartered banks may branch into other states in this manner if the law of the state in which the branch will be established or acquired so authorizes even if the law of such state requires a reciprocal provision under Illinois law.

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

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

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

EXECUTIVE OFFICERS

The term of office for the executive officers of the Company is from the date of election until the next annual organizational meeting of the Board of Directors. In addition to the information provided in the 2009 Proxy Statement, the names and ages of the executive officers of the Company, as well as the offices of the Company and the Subsidiary held by these officers on that date, and principal occupations for the past five years are set forth below.

Thomas A. Daiber, 51, is the President & Chief Executive Officer of Centrue Financial Corporation and Centrue Bank. Mr. Daiber joined the former Centrue Financial in October of 2002 as its President and Chief Executive Officer.

Kurt R. Stevenson, 42, is the Senior Executive Vice President & Chief Financial Officer of Centrue Financial Corporation and Centrue Bank and has held that role since 2003.

Donald M. Davis, 48, is the Market President for the Company's St. Louis market area, a position held since he joined the former Centrue Bank in 2006. He had previously worked for National City Bank as its Senior Vice President of Commercial Real Estate since 2005. Mr. Davis worked for Allegiant Bancorp, Inc. from 1997 to 2005 as its Senior Vice President/Commercial Business Development Officer.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

Steven E. Flahaven, 53, is the Company's Executive Vice President & Head of Commercial Banking, a position held since 2006. Beginning in 2004, he acted as the Senior Vice President and Senior Commercial Loan Officer. Mr. Flahaven joined UnionBank in 2002 as its Vice President and Senior Lender.

Everett J. Solon, 56, is the Market President for the Company's Streator, Dwight, Ottawa and Peru locations, a position held since 2003. In 2007, he also acted as the Company's Head of Mortgage Banking.

Robert L. Davidson, 63, is the Company's Executive Vice President, Chief Investment Officer and ALCO Manager, a position held since January of 2006. He had previously served as the Company's Senior Vice President, Chief Investment Officer and ALCO Manager since 2001.

Roger D. Dotson, 61, is the Company's Executive Vice President, a position held since late 2007. In this capacity, he is responsible for oversight in the operations, IT, deposit operations, and loan operations areas. He had previously served as the Company's Head of Retail Banking. Mr. Dotson joined the former Centrue Bank as their Regional President in 2005. Prior to joining the Company, Mr. Dotson served as the President & CEO of Illinois Community Bank located in Effingham, Illinois.

Heather M. Hammitt, 34, is the Company's Executive Vice President & Head of Human Resources & Corporate Communications. Ms. Hammitt joined UnionBancorp in March of 1998 and has served in various positions of management in the human resources department during that time.

Kenneth A. Jones, 45, is the Company's Executive Vice President & Chief Credit Officer. Mr. Jones joined UnionBank in October 2000 and, prior to his current position, he served in the role of Commercial Collector.

Diane F. Leto, 47, is the Company's Executive Vice President & Head of Operations. As of January 1, 2009, she was appointed as Chief Risk Officer. She has been with the Company since June of 2004. Prior to joining the Company, Ms. Leto was the Senior Vice President of Operations for Castle Bank located in DeKalb, Illinois.

Ricky R. Parks, 43, is the Market President for the Company's Fairview Heights, Aviston, Belleville, Effingham and St. Rose locations. Mr. Parks joined the former Centrue Bank in January of 2004 as a Senior Vice President and Senior Lender and in October of 2004 was named its Regional Bank President. Prior to joining Centrue, Mr. Parks worked for Union Planters Bank from September of 1991 until January of 2004 in the Metro-East St. Louis market and held the position of Senior Vice President & Commercial Team Leader prior to his departure.

Mary Jane Raymond, 52, is the Company's Executive Vice President & Head of Retail Banking. Ms. Raymond joined the former Centrue in March of 2005 as a Vice President/Regional Sales Manager. Prior to joining Centrue, Ms. Raymond worked as a Vice President for Regions Bank from May of 1997 to March of 2005.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

Available Information

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

Item 1A. Risk Factors

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material risk and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. See also, "Special Note Regarding Forward-Looking Statements" and "Recent Developments."

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and you could lose all or part of your investment.

References to "we," "us," and "our" in this section refer to the Company and its subsidiary, unless otherwise specified or unless the context otherwise requires.

Risks Related to the Company's Business

We are subject to current financial market risk.

In 2008 and continuing in 2009, governments, regulators and central banks in the United States and worldwide have taken numerous steps to increase liquidity and to restore investor confidence, but asset values have continued to decline and access to liquidity continues to be very limited.

The EESA authorizes the U. S. Treasury to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions and their holding companies, under TARP. The purpose of TARP is to restore confidence and stability to the United States banking system and to encourage financial institutions to increase their lending to customers and to each other. Under the Capital Purchase Program, which we participated in, the U. S. Treasury is purchasing equity securities from participating institutions. For more information regarding our participation in the Capital Purchase Program, see the discussion under the caption "Recent Developments" in Item 1 "Business" of Part I of this Annual Report on Form 10-K. The EESA also increased federal deposit insurance on most deposit accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. The ARRA, which was signed into law on February 17, 2009, includes a wide array of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health and education needs. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our Common Shares.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

We are subject to interest rate risk.

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

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

We are subject to lending risk.

As of December 31, 2008 approximately 81.0% of the Company's loan portfolio consisted of commercial, financial, and agricultural, real estate construction, and commercial real estate loans (collectively, *commercial loans*). Commercial loans are generally viewed as having more inherent risk of default than residential mortgage loans or retail loans. Also, the commercial loan balance per borrower is typically larger than that for residential mortgage loans and retail loans, inferring higher potential losses on an individual loan basis. Because the Company's loan portfolio contains a number of commercial loans with large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See Part II *Loans* in *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for further discussion of credit risks related to different loan types.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

We are subject to economic conditions of our geographic market.

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

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

We are subject to current levels of unprecedented market volatility.

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

Our allowance for loan losses may be insufficient.

Managing the Company's allowance for loan losses is based upon, among other things, (1) historical experience, (2) an evaluation of local and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit, and (6) results of regulatory examinations. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the respective loan portfolios. Although the Company believes that the allowance for loan losses is adequate, there can be no assurance that such allowance will prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions change or adverse developments arise with respect to nonperforming or performing loans or if regulatory supervision changes. Material additions to the allowance for loan losses would result in a material decrease in the Company's net income, and possibly its capital, and could result in the inability to pay dividends, among other adverse consequences.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

Mergers and Acquisitions may disrupt our business and dilute stockholder value.

The Company regularly evaluates mergers and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. The Company seeks merger or acquisition partners that are culturally similar, have experienced management, and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services.

Acquiring or merging with other banks, businesses, and acquiring branches involves potential adverse impact to the Company's financial results and various other risks commonly associated with mergers and acquisitions, including, among other things:

Difficulty in estimating the value of the target company

Payment of a premium over book and market values that may dilute the Company's tangible book value and earnings per share in the short and long term

Potential exposure to unknown or contingent liabilities of the target company

Exposure to potential asset quality issues of the target company

There may be volatility in reported income as goodwill impairment losses could occur irregularly and in varying amounts

Difficulty and expense of integrating the operations and personnel of the target company

Inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits

Potential disruption to the Company's business

Potential diversion of the Company's management's time and attention

The possible loss of key employees and customers of the target company

Potential changes in banking or tax laws or regulations that may affect the target company

Details of the Company's recent acquisition activity are presented in Note 2, Business Acquisitions and Divestitures, of the notes to consolidated financial statements within Part II, Item 8.

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

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

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

Risks Associated with the Company's Industry

We operate in a highly regulated industry.

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

**Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K**

Item 2. Properties

At December 31, 2008, the Company operated thirty offices (twenty-seven full-service bank branches and two back-room sales support nonbanking facilities in Illinois and one full-service bank branch in Missouri). The principal offices of the Company are located in St. Louis, Missouri. All of the Company's offices are owned by Centrue Bank and are not subject to any mortgage or material encumbrance, with the exception of four offices that are leased: one is located in LaSalle County in Illinois, one in Will County in Illinois, one in St. Clair County in Illinois and one in St. Louis County in Missouri. The Company believes that its current facilities are adequate for its existing business.

<u>AFFILIATE</u>	<u>MARKETS SERVED</u>	<u>PROPERTY/TYPE LOCATION</u>
The Company		Administrative Office: St. Louis, MO
Centrue Bank	Bureau, Champaign, Clinton, DeKalb, Effingham, Grundy, Kankakee, Kendall, LaSalle, Livingston, St. Clair and Will Counties in Illinois	Main Office: Streator, IL Twenty-seven banking offices and two non-banking offices located in markets served.
	St. Louis County in Missouri	One banking office

In addition to the banking locations listed above, Centrue Bank owns thirty automated teller machines, some of which are housed within banking offices and some of which are independently located.

At December 31, 2008, the properties and equipment of the Company had an aggregate net book value of approximately \$32.4 million.

Item 3. Legal Proceedings

Neither the Company nor its subsidiary are involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business, which, in the opinion of management, in the aggregate, are not material to the Company's consolidated financial condition.

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

None.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

PART II

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

The Company's Common Stock was held by approximately 911 stockholders of record as of February 23, 2009, and is traded on The NASDAQ Stock Market under the symbol TRUE. The table below indicates the high and low sales prices of the Common Stock as reported by NASDAQ for transactions of which the Company is aware, and the dividends declared per share for the Common Stock during the periods indicated. Because the Company is not aware of the price at which certain private transactions in the Common Stock have occurred, the prices shown may not necessarily represent the complete range of prices at which transactions in the Common Stock have occurred during such periods.

	Stock Sales		Cash Dividends
	High	Low	
2008			
First Quarter	\$ 22.94	\$ 17.26	\$ 0.13
Second Quarter	19.90	11.03	0.14
Third Quarter	16.00	9.12	0.14
Fourth Quarter	14.57	5.70	0.14
2007			
First Quarter	\$ 19.93	\$ 18.99	\$ 0.12
Second Quarter	20.55	18.50	0.13
Third Quarter	20.31	18.95	0.13
Fourth Quarter	24.90	19.19	0.13

The holders of the Common Stock are entitled to receive dividends as declared by the board of directors of the Company, which considers payment of dividends quarterly. Upon the consummation of an acquisition in 1996, preferential dividends were required to be paid or accrued quarterly, with respect to the outstanding shares of Preferred Stock. In preparation for participation in the U. S. Department of the Treasury's Capital Purchase Program, the Company has added a Fixed Rate Cumulative Preferred Stock, Series C. This preferred securities series to be issued by the Company will pay cumulative dividends of 5% a year for the first five years and 9% thereafter.

The ability of the Company to pay dividends in the future will be primarily dependent upon its receipt of dividends from Centrue Bank. In determining cash dividends, the Board of Directors considers the earnings, capital requirements, debt and dividend servicing requirements, financial ratio guidelines it has established, financial condition of the Company and other relevant factors. Centrue Bank's ability to pay dividends to the Company and the Company's ability to pay dividends to its stockholders are also subject to certain regulatory restrictions.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

The Company has paid regular cash dividends on the Common Stock since it commenced operations in 1982. There can be no assurance, however, that any such dividends will be paid by the Company or that such dividends will not be reduced or eliminated in the future. The timing and amount of dividends will depend upon the earnings, capital requirements and financial condition of the Company and Centrue Bank, as well as the general economic conditions and other relevant factors affecting the Company and its subsidiaries. In 2008, the Company entered into a new loan agreement with Bank of America replacing the Company's prior loan agreement. The loan agreement contains a dividend restriction specifying that the Company cannot declare or pay dividends in excess of 40% of the then current year's earnings without prior consent. In addition, the terms of the Series A Preferred Stock, and the Series B Preferred Stock issued to certain of Prairie's preferred stockholders prohibit the payment of dividends by the Company on the Common Stock during any period for which dividends on the respective series of Preferred Stock are in arrears. Additionally, the securities purchase agreement, between the Company and the Treasury limits the payment of dividends on the Common Stock to the current quarterly cash dividend of \$0.14 per share.

The following graph shows a comparison of cumulative total returns for Centrue Financial Corporation, the NASDAQ Stock Market (US Companies) and an index of SNL Midwest Bank Stocks for the five-year period beginning January 1, 2004 and ending on December 31, 2008. The graph was prepared at our request by SNL Financial LC, Charlottesville, Virginia.

COMPARISON OF CUMULATIVE TOTAL RETURN
(ASSUMES \$100 INVESTED ON JANUARY 1, 2004)

Index	12/31/03	12/31/04	Period Ending		12/31/07	12/31/08
			12/31/05	12/31/06		
Centrue Financial Corporation	100.00	99.11	101.37	94.86	112.50	32.07
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL Midwest Bank	100.00	112.84	108.73	125.68	97.96	64.44

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

The following table provides information about purchases of the Company's common stock by the Company during the fourth quarter 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/08 - 10/31/08				395,078
11/01/08 - 11/30/08				395,078
12/01/08 - 12/31/08				395,078
Total (1)				395,078

- (1) The Company repurchased no shares of stock during the quarter ended December 31, 2008. The 2007 repurchase program approved on July 24, 2007 authorized the Company to repurchase an additional 500,000 shares, or approximately 8% of the Company's currently issued and outstanding shares, in the open market or privately negotiated transactions over an 18 month period commencing immediately following the completion of the 2006 stock repurchase program. This program expired on January 24, 2009.

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

Item 6. Selected Financial Data

The following table presents selected consolidated financial data for the five years ended December 31, 2008:

	2008	2007	2006	2005	2004
Statement of Income Data					
Interest income	\$ 73,518	\$ 83,576	\$ 43,858	\$ 34,697	\$ 34,898
Interest expense	33,944	44,735	21,351	13,704	13,231
Net interest income	39,574	38,841	22,507	20,993	21,667
Provision for loan losses	8,082	675	(1,275)	250	1,924
Net interest income after provision for loan losses	31,492	38,166	23,782	20,743	19,743
Noninterest income	13,409	15,665	6,688	6,298	12,378
Noninterest expense	35,745	37,333	22,723	21,343	24,860
Income before income taxes	9,156	16,498	7,747	5,698	7,261
Income taxes	2,766	5,175	2,145	1,319	2,173
Income from continuing operations (after taxes)	6,390	11,323	5,602	4,379	5,088
Loss on discontinued operations			(415)	(206)	(285)
Net income	\$ 6,390	\$ 11,323	\$ 5,187	\$ 4,173	\$ 4,803
Preferred stock dividends	207	207	207	207	207
Net income for common stockholders	\$ 6,183	\$ 11,116	\$ 4,980	\$ 3,966	\$ 4,596
Per Share Data					
Basic earnings per common shares from continuing operations	\$ 1.02	\$ 1.75	\$ 1.31	\$ 1.06	\$ 1.21
Basic earnings per common share	1.02	1.75	1.21	1.01	1.14
Diluted earnings per common share from continuing operations	1.02	1.74	1.30	1.04	1.19
Diluted earnings per common share	1.02	1.74	1.20	0.99	1.12
Dividends per common stock	0.55	0.51	0.48	0.44	0.40
Dividend payout ratio for common stock	53.71%	29.17%	27.05%	43.39%	35.10%
Book value per common stock	\$ 19.14	\$ 19.50	\$ 18.23	\$ 17.23	\$ 17.30
Basic weighted average common shares outstanding	6,033,896	6,341,693	4,119,235	3,943,741	4,033,608
Diluted weighted average common shares outstanding	6,042,296	6,380,659	4,163,836	4,002,908	4,109,999
Period-end common shares outstanding	6,028,491	6,071,546	6,455,068	3,806,876	4,032,144
Balance Sheet Data					
Securities	\$ 252,562	\$ 249,331	\$ 298,692	\$ 196,440	\$ 191,661
Loans	1,004,390	957,285	836,944	417,525	419,275

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Allowance for loan losses	15,018	10,755	10,835	8,362	9,732
Total assets	1,401,881	1,364,999	1,283,025	676,222	669,546
Total deposits	1,049,220	1,033,022	1,026,610	543,841	512,477
Stockholders equity	115,908	118,876	118,191	66,075	70,247

Earnings Performance Data

Return on average total assets	0.47%	0.85%	0.69%	0.63%	0.65%
Return on average stockholders equity	5.43	9.53	6.69	6.06	7.06
Net interest margin ratio	3.32	3.35	3.41	3.56	3.34
Efficiency ratio ⁽¹⁾	64.32	66.67	76.81	77.78	82.90

Asset Quality Ratios

Nonperforming assets to total end of period assets	1.64%	0.51%	1.08%	0.62%	0.69%
Nonperforming loans to total end of period loans	1.03	0.43	1.40	0.96	1.00
Net loan charge-offs to total average loans	0.38	0.08	0.22	0.39	0.23
Allowance for loan losses to total loans	1.50	1.12	1.29	2.00	2.32
Allowance for loan losses to nonperforming loans	145.55	262.96	92.14	208.84	231.60

Capital Ratios

Average equity to average assets	8.69%	8.90%	10.35%	10.39%	9.27%
Total capital to risk adjusted assets	12.18	10.23	11.94	13.33	14.30
Tier 1 leverage ratio	8.10	7.69	7.90	9.03	9.54

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

Centrue Financial Corporation
Securities And Exchange Commission
Form 10-K

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

The following discussion provides an analysis of the Company's results of operations and financial condition of Centrue Financial Corporation for the three years ended December 31, 2008. Management's discussion and analysis (MD&A) should be read in conjunction with Selected Consolidated Financial Data, the consolidated financial statements of the Company, and the accompanying notes thereto. Unless otherwise stated, all earnings per share data included in this section and throughout the remainder of this discussion are presented on a fully diluted basis. All financial information is in thousands (000's), except per share data.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

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

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

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

Critical Accounting Policies and Estimates

Note 1 to our Consolidated Financial Statements for the year ended December 31, 2008 contains a summary of our significant accounting policies. Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Our policy with respect to the methodologies used to determine the allowance for loan losses is our most critical accounting policy. The policy is important to the presentation of our financial condition and results of operations, and it involves a higher degree of complexity and requires management to make difficult and subjective judgments, which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in our results of operations or financial condition.

The following is a description of our critical accounting policy and an explanation of the methods and assumptions underlying its application.

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

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The allowance for loan losses is based on an estimation computed pursuant to the requirements of Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies and FASB Statements Nos. 114 and 118, Accounting by Creditors for Impairment of a Loan, the analysis of the allowance for loan losses consists of three components: (i) specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for each loan category; and (iii) subjective reserves based on general economic conditions as well as specific economic factors in markets in which the Company operates.

The specific credit allocation component of the allowances for loan losses is based on an analysis of individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values.

The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss analysis that examines historical loan loss experience. The loss analysis is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. The process for determining the allowance (which management believes adequately considers all of the potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differs from management estimates, additional provision for credit losses could be required that could adversely affect the Company's earnings or financial position in future periods.

Securities: Available-for-sale securities are those that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value with unrealized gains or losses, net of the related income tax effect, reported in other comprehensive income. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. The fair values of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). If the securities could not be priced using quoted market prices, observable market activity or comparable trades, the financial market was considered not active and the assets were classified as Level 3. The assets included in Level 3 are trust preferred CDOs. These securities were historically priced using Level 2 inputs. In 2008, the decline in the level of observable inputs and market activity for trust preferred CDOs by the measurement date was significant and resulted in unreliable external pricing. As such, these investments are now considered Level 3 inputs and are priced using an internal model. The following information is incorporated into the pricing model utilized in determining individual security valuations:

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

historical and current performance of the underlying collateral

deferral/default rates

collateral coverage ratios

break in yield calculations

cash flow projections

required liquidity and credit premiums

financial trend analysis with respect to the individual issuing financial institutions and insurance companies

Due to market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic and market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

For additional discussion on securities, see Notes 3 and 5 of Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Goodwill: Costs in excess of the estimated fair value of identified assets acquired through purchase transactions are recorded as an asset of the Company. As per Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, an annual impairment analysis is required to be performed to determine if the asset is impaired and needs to be written down to its fair value. This assessment is conducted as of December 31 of each year or more frequently if conditions warrant. Per the December 31, 2008 analysis, no impairment was identified as a result of these tests. In making these impairment analyses, 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 changes to adjust the goodwill to its estimated fair value.

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.

General

Centrue Financial Corporation (the Company) is a bank holding company organized under the laws of the State of Delaware. On November 13, 2006, the Company (formerly known as UnionBancorp, Inc. now known as Centrue Financial Corporation) merged with Centrue Financial Corporation (former Centrue), parent of Centrue Bank with the Company being the surviving entity in the merger. Operating results of former Centrue are included in the consolidated financial statements since the date of the acquisition. The Company provides a full range of products and services to individual and corporate

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

customers located in the north central, east central, south central, suburban west area of Chicago, suburban metro east area of St. Louis, and northwest Illinois areas. These products and services include demand, time, and savings deposits; lending; and mortgage banking. Additionally, brokerage, asset management, and trust services will be provided to our customers after the sale of these product lines on a referral basis to third party providers that acquired the business. The Company is subject to competition from other financial institutions, including banks, thrifts and credit unions, as well as nonfinancial institutions providing financial services. Additionally, the Company and its subsidiary Centrue Bank (the Bank) are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Merger, Acquisition and Divestiture Activity

Completed Transactions

On March 28, 2008 the Company completed the sale of its Hanover and Elizabeth branches to Apple River State Bank headquartered in Apple River, Illinois. Apple River assumed approximately \$22,700 in deposits and acquired \$14,700 in loans, and \$401 in premises and equipment. The net gain on the sale was \$482.

On June 6, 2008 the Company completed the sale of its Manlius and Tampico branches to Peoples National Bank headquartered in Kewanee, Illinois. Peoples National assumed approximately \$29,500 in deposits and acquired \$17,600 in loans, and \$214 in premises and equipment. The net gain on the sale was \$629.

On August 29, 2008 the Company completed the sale of its Asset Management product line to Vezzetti Capital Management. There was no gain or loss recorded on this transaction.

On September 18, 2008 the Company completed the sale of its brokerage product line. The net loss on sale was \$29.

Announced Transactions

On September 15, 2008, the Company entered into an agreement to sell its Trust unit of their Wealth Management division to Hometown National Bank headquartered in LaSalle, Illinois. The Definitive Purchase and Assumption Agreement entered into calls for Hometown to purchase the customers associated with this product line. The transaction was executed on January 23, 2009. There was no gain or loss recorded on this transaction.

Results of Operations

Net Income

2008 compared to 2007. Net income equaled \$6,390 or \$1.02 per diluted share for the year ended December 31, 2008 as compared to net income of \$11,323 or \$1.74 per diluted share for the year ended December 31, 2007. This represents a 43.6% decrease in net income and a 41.4% decrease in diluted per share earnings in the current fiscal year over fiscal 2007.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The Company's annual results declined in 2008 versus 2007 primarily due to a \$7,407 increase in the provision for loan losses and a \$2,735 non-cash impairment charge related to trust preferred securities. These two factors are largely reflective of continued deterioration of general economic conditions and the extraordinary volatility in the securities markets experienced in fourth quarter 2008. These items were offset by decreases in noninterest expenses due to the impact of selling four branches in the first and second quarter of 2008 and management initiatives to reduce costs. Thus, the Company had a fewer number of full-time equivalents that led to lower payroll and benefit costs. Additionally, occupancy, telephones and data line expense levels were lower. Also positively contributing to results were gains on sales of callable securities and branches recorded in the first and second quarters of 2008.

Return on average assets was 0.47% for the year ended December 31, 2008 compared to 0.85% for the same period in 2007. Return on average stockholders' equity was 5.43% for the year ended December 31, 2008 compared to 9.53% for the same period in 2007.

2007 compared to 2006. Net income equaled \$11,323 or \$1.74 per diluted share for the year ended December 31, 2007 as compared to net income of \$5,187 or \$1.20 per diluted share for the year ended December 31, 2006. Net income for continuing operations equaled \$11,323 or \$1.74 per diluted share as compared to net income of \$5,602 or \$1.30 per diluted share. This represents a 118.3% increase in net income and a 45.0% increase in diluted per share earnings in the current fiscal year over fiscal 2006.

The Company's annual results for continuing operations improved in 2007 versus 2006 due to volume related increases in net interest income and other fee based revenue largely related to a full year's operating results from the Centrue merger and organic loan growth generated in the St. Louis market. These improvements were partially offset by increases in noninterest expenses associated with operating twenty-one additional branches resulting from the merger and an increased provision for loan losses.

Return on average assets was 0.85% for the year ended December 31, 2007 compared to 0.69% for the same period in 2006. Return on average stockholders' equity was 9.53% for the year ended December 31, 2007 compared to 6.69% for the same period in 2006.

Net Interest Income/ Margin

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

2008 compared to 2007. Net interest income, on a tax equivalent basis, was \$40,554 for the year ended December 31, 2008, compared with \$39,958 earned during the same period in 2007. This represented an increase of \$596 or 1.5%. Tax-equivalent interest income declined \$10,195 as compared to 2007. The increase in interest-earning assets increased interest income by \$1,945, while a 99 basis point decline in the average rate earned on interest-earning assets reduced interest income by \$12,140. Interest expense declined \$10,791 as compared to 2007. The increase in interest-bearing liabilities increased interest expense by \$1,079, but the shift to less expensive wholesale borrowing, coupled with an overall 107 basis point decrease in the average rate paid on interest-bearing liabilities reduced interest expense by \$11,870.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The net interest margin decreased 3 basis points to 3.32% for the year ended December 31, 2008 from 3.35% during the same period in 2007. The Company's margin has been pressured by falling short-term interest rates, as approximately 40% of the Company's loan portfolio is tied to prime or LIBOR and immediately reprices downward upon a rate change; whereas, pricing on deposits have remained at relatively high competitive levels. Due largely to continued competition in pricing loans and deposits, the protracted economic downturn, and the Company's interest rate sensitivity, the margin will likely remain under pressure throughout 2009.

2007 compared to 2006. Net interest income, on a tax equivalent basis, was \$39,958 for the year ended December 31, 2007, compared with \$23,099 earned during the same period in 2006. This represented an increase of \$16,859 or 72.9%. The improvement in net interest income was largely related to an increase in earning assets due to the addition of the former Centrue's loan and investment portfolios for a full year in 2007 and organic loan growth generated primarily in the St. Louis market. This was offset by increases in deposit balances and a shift in the mix of funding liabilities from lower costing non-interest bearing deposits to higher costing time deposits.

The \$40,238 increase in interest income resulted from improvements of \$37,453 related to volume and \$2,785 due to rates. The majority of the change in interest income was related to a \$437,690 improvement in average loans largely related to the 2006 merger and organic loan growth generated from the St. Louis market. Also, contributing were yield increases of 42 basis points in the loan portfolio and 29 basis points in the security portfolio.

The \$23,379 increase in interest expense resulted from increases of \$20,381 due to volume and \$2,998 associated with rate. The majority of the change was attributable to a \$487,557 increase in average interest-bearing liabilities related to the 2006 merger and 69 basis point increases in rates paid on total time deposits.

The net interest margin decreased 6 basis points to 3.35% for the year ended December 31, 2007 from 3.41% during the same period in 2006. Adversely impacting margin levels was a funding shift into higher costing time and wholesale deposits away from lower costing non-maturing deposits. The changes in deposit composition, as well as a generally higher cost of funds during the year, put pressure on the margin.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

For the Years Ended December 31, 2008

	Average Balance	2007 Interest Income/ Expense	Average Rate	Average Balance	2006 Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS									
Interest-earning assets									
Interest-earning deposits	\$ 2,891	\$ 13	0.45%	\$ 2,362	\$ 33	1.40%	\$ 736	\$ 16	2.18%
Securities									
Taxable	185,507	8,992	4.85	237,078	12,473	5.26	183,443	8,785	4.79
Non-taxable	38,843	2,208	5.68	40,950	2,248	5.49	21,711	1,478	6.81
Total securities (tax equivalent)	224,350	11,200	4.99	278,028	14,721	5.29	205,154	10,263	5.00
Federal funds sold	2,567	54	2.10	10,811	545	5.04	6,846	364	5.31
Loans									
Commercial	191,578	11,965	6.25	180,714	14,962	8.28	121,435	8,957	7.38
Real estate	791,033	50,630	6.40	708,734	53,480	7.55	334,119	23,529	7.03
Installment and other	9,413	636	6.76	13,210	952	7.21	9,414	1,326	14.08
Gross loans (tax equivalent)	992,024	63,231	6.37	902,658	69,394	7.69	464,968	33,812	7.27
Total interest-earnings assets	1,221,832	74,498	6.10	1,193,859	84,693	7.09	677,704	44,455	6.56
Noninterest-earning assets									
Cash and cash equivalents	28,415			31,692			18,818		
Premises and equipment, net	33,992			35,747			16,618		
Other assets	69,919			73,579			36,074		
Total non-interest-earning assets	132,326			141,018			71,510		
Total assets	\$ 1,354,158			\$ 1,334,877			\$ 749,214		
LIABILITIES AND STOCKHOLDERS EQUITY									
Interest-bearing liabilities									
NOW accounts	105,800	1,211	1.14%	105,417	1,740	1.65%	\$ 74,328	1,313	1.77%
Money market accounts	155,001	4,083	2.63	126,614	4,861	3.84	62,778	1,876	2.99
Savings deposits	87,615	319	0.36	96,838	655	0.68	45,343	315	0.69
Time \$100,000 and over	216,112	7,945	3.68	226,605	12,010	5.30	209,030	9,093	4.35
Other time deposits	343,456	13,997	4.08	387,530	18,294	4.72	137,470	5,608	4.14

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Federal funds purchased and repurchase agreements	42,148	760	1.80	43,859	1,881	4.29	9,947	407	4.09
Advances from FHLB	119,800	3,279	2.74	64,964	2,834	4.36	46,499	1,823	3.92
Notes payable	41,077	2,350	5.72	32,428	2,460	7.59	11,303	921	8.15
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total interest-bearing liabilities	1,111,009	33,944	3.06	1,084,255	44,735	4.13	596,698	21,356	3.58
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Noninterest-bearing liabilities									
Noninterest-bearing deposits	114,994			120,355			68,650		
Other liabilities	10,545			11,459			6,355		
	<u> </u>			<u> </u>			<u> </u>		
Total noninterest-bearing liabilities	125,539			131,814			75,005		
	<u> </u>			<u> </u>			<u> </u>		
Stockholders' equity	117,610			118,808			77,511		
	<u> </u>			<u> </u>			<u> </u>		
Total liabilities and stockholders' equity	\$ 1,354,158			\$ 1,334,877			\$ 749,214		
	<u> </u>			<u> </u>			<u> </u>		
Net interest income (tax equivalent)		\$ 40,554			\$ 39,958			\$ 23,099	
		<u> </u>			<u> </u>			<u> </u>	
Net interest income (tax equivalent) to total earning assets			3.32%			3.35%			3.41%
			<u> </u>			<u> </u>			<u> </u>
Interest-bearing liabilities to earning assets	90.93%			90.82%			88.05%		
	<u> </u>			<u> </u>			<u> </u>		

-
- (1) Average balance and average rate on securities classified as available-for-sale are based on historical amortized cost balances.
 - (2) Interest income and average rate on non-taxable securities are reflected on a tax equivalent basis based upon a statutory federal income tax rate of 34%.
 - (3) Nonaccrual loans are included in the average balances.
 - (4) Overdraft loans are excluded in the average balances.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The Company's net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as volume change. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds referred to as rate change. The following table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

RATE/VOLUME ANALYSIS OF
NET INTEREST INCOME

For the Years Ended December 31,

	2008 Compared to 2007			2007 Compared to 2006		
	Change Due to			Change Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest-income:						
Interest-earning deposits	\$ 3	\$ (23)	\$ (20)	\$ 23	\$ (6)	\$ 17
Investment securities:						
Taxable	(2,640)	(841)	(3,481)	2,822	866	3,688
Non-taxable	(128)	88	(40)	1,056	(286)	770
Federal funds sold	(300)	(191)	(491)	200	(19)	181
Loans	5,010	(11,173)	(6,163)	33,352	2,230	35,582
Total interest income	1,945	(12,140)	(10,195)	37,453	2,785	40,238
Interest expense:						
NOW accounts	45	(574)	(529)	513	(86)	427
Money market accounts	1,098	(1,876)	(778)	2,451	534	2,985
Savings deposits	(35)	(301)	(336)	348	(8)	340
Time, \$100,000 and over	(255)	(3,810)	(4,065)	8,554	1,553	10,107
Other time deposits	(1,744)	(2,553)	(4,297)	4,652	844	5,496
Federal funds purchased and repurchase agreements	(507)	(614)	(1,121)	1,454	20	1,474
Advances from FHLB	1,899	(1,454)	445	806	205	1,011
Notes payable	578	(688)	(110)	1,603	(64)	1,539
Total interest expense	1,079	(11,870)	(10,791)	20,381	2,998	23,379
Net interest income	\$ 866	\$ (270)	\$ 596	\$ 17,072	\$ (213)	\$ 16,859

Provision for Loan Losses. The amount of the provision for loan losses is based on management's evaluations of the loan portfolio, with particular attention directed toward nonperforming, impaired and other potential problem loans. During these evaluations, consideration is also given to such factors as management's evaluation of specific loans, the level and composition of impaired loans, other nonperforming loans, other identified potential problem loans, historical loss experience, results of examinations by regulatory agencies, results of the independent asset quality review process, the market value of collateral, the estimate of discounted cash flows, the strength and availability of guaranties, concentrations of credits, and various other factors, including concentration of credit risk in various industries and current economic conditions.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

2008 compared to 2007. The 2008 provision for loan losses charged to operating expense totaled \$8,082, an increase of \$7,407 in comparison to \$675 recorded in the 2007 period. The increase in the provision was the result of identifying and addressing problem credits and the continued deterioration of economic conditions. Specifically, nine relationships were identified during 2008 where large specific provisions were recorded. As part of an ongoing review of the commercial loan portfolio, seven additional large credits with a deterioration in their financial condition were identified. Action plans were implemented, resulting in \$28,300 being classified as impaired. Of this total, \$3,500 is for three relationships that are nonperforming and classified as nonaccrual. There were four relationships totaling \$24,800 that were still performing assets at December 31, 2008. Two of the relationships totaling \$6,100 were making monthly payments and were less than 30 days past due on December 31, 2008. The two other relationships totaling \$18,700 are residential development projects and were down graded to impaired due to slow sales driven by the current economic climate. In each of these instances, the borrower has developed an action plan to improve sales. If sales do not improve, the performing status of these credits will be re-evaluated.

For the two previously identified relationships disclosed in the Company's quarterly report on Form 10 Q for the first quarter 2008 filed on May 9, 2008, we continue to carry \$8,300 as other real estate owned for one of these relationships. The Company is actively marketing the remaining parcel and no additional write-downs related to this credit have been taken other than the \$1,200 charge-off taken during the third quarter. On the second relationship identified earlier in the year, the \$7,300 loan was restructured in the fourth quarter with no additional provision or loss being taken. This restructuring was not considered to be a troubled debt restructuring. The remaining parcel with a balance of \$3,700 remains in other assets but is under contract with a closing anticipated by mid-2009.

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

The following factors also impacted 2008 provision levels:

increase in nonperforming and action list loans since year-end;

increase in the level of past due loans.

Net charge-offs for the year ended December 31, 2008 were \$3,819 compared with \$755 in the same period of 2007. Annualized net charge-offs increased to 0.38% of average loans for 2008 compared to 0.09% in the same period in 2007.

Management continues to diligently monitor the loan portfolio, paying particular attention to borrowers with residential real estate exposure. While virtually all of these relationships are performing, the economic outlook for this industry will likely remain extremely challenging well into 2009. Should the economic climate deteriorate from current levels, borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise requiring further increases in the provision for loan losses.

2007 compared to 2006. The 2007 provision for loan losses charged to operating expense totaled \$675, an increase of \$1,950 in comparison to recording a negative provision of (\$1,275) in the 2006 period. The increase in the provision was the result of identifying and addressing problem credits and the recent deteriorating economic conditions in a timely fashion. Results for 2006 included negative provisions largely due to the pay-off of one \$4,400 loan relationship that was classified as impaired in late 2005 with a specific reserve allocation of \$1,500. The following factors also impacted 2007 provision levels:

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

decrease in nonperforming and action list loans since year-end;

decrease in the level of past due loans;

higher than anticipated recoveries; and

many loans that were charged off during 2007 had previously been allocated a specific reserve.

Net charge-offs for the year ended December 31, 2007 were \$755 compared with \$1,019 in the same period of 2006. Annualized net charge-offs decreased to 0.09% of average loans for 2007 compared to 0.22% in the same period in 2006.

Noninterest Income. Noninterest income consists of a wide variety of fee-based revenues from bank-related service charges on deposits and mortgage revenues. Also included in this category are revenues generated by the Company's brokerage, trust and asset management services as well as increases in cash surrender value on bank-owned life insurance. The following table summarizes the Company's noninterest income:

NONINTEREST INCOME
(Dollars in Thousands)

	Years Ended December 31,		
	2008	2007	2006
Service charges	\$ 7,303	\$ 6,789	\$ 2,473
Trust income	750	942	858
Mortgage banking income	1,525	1,743	1,113
Brokerage commissions and fees	254	795	326
Bank owned life insurance	1,022	991	628
Securities gains (losses)	848	(29)	(104)
Other than temporary impairment on securities	(2,735)		
Gain on sale of Oreo	379	1,107	
Gain on sale of other assets	1,309		
Other income	2,754	3,327	1,394
Total noninterest income	\$ 13,409	\$ 15,665	\$ 6,688

2008 compared to 2007. Noninterest income totaled \$13,409 for the year ended December 31, 2008, as compared to \$15,665 for the same period in 2007. This represented a decrease of \$2,256 or 14.4% in 2008 over the prior period. Excluding \$199 in 2008 nonrecurring activity (other than temporary impairment losses on trust preferred securities and gains on sale of four branches and other assets, securities gains, and OREO gains) and \$1,078 of nonrecurring activity recorded in 2007, noninterest income showed a year-over-year decrease of \$979 or 6.7%.

Excluding all nonrecurring activity from both periods, the decline was primarily the result of volume related reductions in the mortgage banking division and the sale of the asset management and brokerage business lines which were finalized in the third and fourth quarters. These decreases were partially offset by growth in service charges and NSF fees on deposit accounts.

2007 compared to 2006. Noninterest income from continuing operations totaled \$15,665 for the year ended December 31, 2007, as compared to \$6,688 for the same period in 2006. This represented an increase of \$8,977 or 134.2% in 2007 over the prior period. Excluding net securities losses and the gains on sale of other assets, noninterest income shows a year-over-year increase of \$7,795 or 114.8%.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The growth was primarily the result of improvements in service charges and NSF fees on deposit accounts, electronic banking services (included in other income), and revenue generated from the mortgage banking division as a result of a full year's activity from the November 2006 merger. Also contributing to the increase were gains on sale of properties held in other real estate (included in the category gain on sale of OREO), increased revenue generated from the brokerage product line, and income earned on accrued interest related to a federal tax refund.

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

NONINTEREST EXPENSE
(Dollars in Thousands)

	Years Ended December 31,		
	2008	2007	2006
Salaries and employee benefits	\$ 16,283	\$ 17,635	\$ 12,181
Occupancy expense, net	3,598	4,043	1,714
Furniture and equipment expenses	2,673	2,621	2,276
Marketing	1,228	1,035	697
Supplies and printing	470	653	421
Telephone	772	834	490
Data processing	1,309	1,650	788
Amortization of intangible assets	2,607	2,307	416
Other expense	6,805	6,555	3,740
Total noninterest expense	\$ 35,745	\$ 37,333	\$ 22,723

2008 compared to 2007. Noninterest expense totaled \$35,745 for the year ended December 31, 2008, as compared to \$37,333 for the same period in 2007. This represented a decrease of \$1,588 or 4.3% in 2008 from 2007.

The decrease was reported across many categories due to management's initiatives to reduce costs. Furthermore, four branches were sold in 2008 which led to further reductions in the number of full-time equivalent employees which decreased payroll & benefit costs as well as lowered occupancy, telephone and data line expense levels. Also contributing were decreases in wealth management operating expenses and data processing costs. Offsetting these decreases were increases related to marketing, loan related expense due to growth in the portfolio, and goodwill valuation adjustments taken related to the sale of the wealth management business (included in amortization of intangible assets).

2007 compared to 2006. Noninterest expense for continuing operations totaled \$37,333 for the year ended December 31, 2007, as compared to \$22,723 for the same period in 2006. This represented an increase of \$14,610 or 64.3% in 2007 from 2006.

The increase was experienced in all categories and primarily due to higher costs associated with operating twenty-one additional branches for a full year's activity from the November 2006 merger. Also contributing were increases in professional fees related to Sarbanes-Oxley compliance, core deposit amortization, accelerated depreciation expense for assets being phased out, and valuation adjustments taken on properties held in other real estate taken in light of recent economic downturns. Offsetting these increases were cost savings related to the completion of integration activities which reduced operating costs and fifty-four full-time equivalent employees.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

Applicable Income Taxes. Income tax expense for the periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits offset by the effect of nondeductible expenses. The following table shows the Company's income before income taxes, as well as applicable income taxes and the effective tax rate for each of the past three years:

	Years Ended December 31,		
	2008	2007	2006
Income from continuing operations before income taxes	\$ 9,156	\$ 16,498	\$ 7,747
Applicable income taxes	2,766	5,175	2,145
Effective tax rates	30.2%	31.4%	27.7%

The Company recorded income tax expense of \$2,766 and \$5,175 for 2008 and 2007, respectively. Effective tax rates equaled 30.2% and 31.4% respectively, for such periods. The Company's effective tax rate was lower than statutory rates due to several factors. First, the Company derives interest income from municipal securities and loans, which are exempt from federal tax and certain U. S. government agency securities, which are exempt from state tax. Second, the Company derives income from bank owned life insurance policies, which is exempt from federal and state tax. Finally, state income taxes are recorded net of the federal tax benefit, which lowers the combined effective tax rate.

Preferred Stock Dividends. The Company paid \$207 of preferred stock dividends in 2008, 2007 and 2006. With the issuance of the new Fixed Rate Cumulative Perpetual Preferred Stock, Series C, for the Company's participation in the U. S. Department of Treasury's Capital Purchase Program, the Company expects to pay approximately \$1,633 of additional dividends in 2009.

Earnings Review by Business Segment

The Company's internal reporting and planning process focuses on four primary lines of business (Segment(s)): Retail, Commercial, Treasury and Wealth Management. See Note 21 of the Notes to Consolidated Financial Statements for the presentation of the condensed income statement and total assets for each Segment.

The financial information presented was derived from the Company's internal profitability reporting system that is used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies which have been developed to reflect the underlying economics of the Segments and, to the extent practicable, to portray the Segment as if it operated on a standalone basis. Thus, each Segment, in addition to its direct revenues and expenses, assets and liabilities, includes an allocation of shared support function expenses. The Retail, Commercial, Treasury, and Wealth Management Segments also include funds transfer adjustments to appropriately reflect the cost of funds on loans made and funding credits on deposits generated. Apart from these adjustments, the accounting policies used are similar to those described in Note 1 of the Notes to Consolidated Financial Statements.

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

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

Retail Segment. The Retail Segment (Retail) provides retail banking services to individual customers through the Company's branch locations in Illinois and Missouri. The services provided by this Segment include consumer lending, checking, savings, money market and CD accounts, safe deposit rental, ATM's and other traditional and electronic banking services.

2008 compared to 2007. Retail generated \$5,196 or 81.3% of total segment net income in 2008 as compared to \$2,492 or 22.0% in 2007. Retail assets were \$255,028 at December 31, 2008 and represented 18.2% of total consolidated assets. This compared to \$306,156 or 22.4% at December 31, 2007.

For 2008, net income increased due to stronger revenues on electronic banking services and gain on sale of other assets for the branch sales which occurred in 2008. Additionally, noninterest expenses were lower across most categories as well as allocated expenses were lower in 2008 than in 2007. These positive variances were slightly offset by higher IT costs, debit card expenses, and other deposit account expenses. The decline in the retail assets was primarily related to the decline in the held residential mortgages portfolio.

2007 compared to 2006. Retail represented 22.0% of total segment net income in 2007 and 26.3% in 2006. Retail assets were \$306,156 at December 31, 2007 and represented 22.4% of total consolidated assets. This compared to \$240,872 at December 31, 2006.

The growth from 2006 to 2007 was primarily the result of operating twenty-one additional branches for a full year's activity from the November 2006 merger. This increased the net interest income, other revenue and other expense categories.

Commercial Segment. The Commercial Segment (Commercial) provides commercial banking services to business customers served through the Company's full service branch channels located in Illinois and Missouri. The services provided by this Segment include lending, business checking and deposits, cash management, and other traditional as well as electronic commercial banking services.

2008 compared to 2007. Commercial generated \$3,807 or 59.6% of total segment net income in 2008 as compared to \$8,855 or 78.2% in 2007. Commercial assets were \$803,069 at December 31, 2008 and represented 57.3% of total consolidated assets. This compared to \$741,861 or 54.4% at December 31, 2007.

Net income for the 2008 decreased to \$3,807 as compared to \$8,855 for the same period in 2007. The decrease is attributable to the \$8,082 provision for loan loss recorded in 2008 as compared to the \$632 provision in 2007. The increase in the provision was the result of identifying additional problem credits and the continued deterioration of the economic conditions. Additionally, there was a large gain on sale of OREO recorded and service revenue was higher during 2007 leading to a decrease in noninterest income between these periods. Offsetting these negative variances is lower noninterest expenses and lower income tax related due to decreased pre-tax earnings in 2008. The growth in the assets was due primarily to organic loan growth generated primarily in the St. Louis market.

2007 compared to 2006. Commercial represented 78.2% of total segment net income in 2007 and 86.9% in 2006. Commercial assets were \$741,861 at December 31, 2007 and represented 54.4% of total consolidated assets. This compared to \$686,495 at December 31, 2006.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The growth from 2006 to 2007 was primarily the result of the increase in earning asset portfolio due to the addition of the former Centrue's loan portfolio for a full year and organic growth generated primarily in the St. Louis market. The increase in the provision was the result of identifying and addressing problem credits and the recent deteriorating economic conditions in a timely fashion. Results for 2006 included negative provisions largely due to the pay-off of one \$4,400 loan relationship that was classified as impaired in late 2005 with a specific reserve allocation of \$1,500.

Treasury Segment. The Treasury Segment (Treasury) is the area of the bank responsible for managing the investment portfolio and acquiring wholesale funding for loan activity. Additionally, this area is responsible for assisting in the management of liquidity and interest rate risk.

2008 compared to 2007. The Treasury Segment net loss was \$(421) or (6.6%) of total segment net income in 2008 as compared to a net loss of \$(298) or (2.6%) for the same period in 2007. Treasury assets were \$277,597 at December 31, 2008, or 19.8% of consolidated assets. This compares to \$268,484 or 19.7% at December 31, 2007.

Treasury's net income for 2008 was impacted by a \$2,735 non-cash other than temporary impairment charge recorded for certain trust preferred securities which is partially offset by the gains on sales from called securities earlier in 2008. This negative variance is also slightly offset by lower noninterest expenses, lower allocated expenses and lower income taxes in 2008. In comparison to 2007 results, there was also a slight improvement in the margin attributable to lower funding costs on wholesale funds.

In 2008, the assets were increased in the latter part of the year to better position the portfolio and leverage the current rate environment.

2007 compared to 2006. In 2007, the reduction in the investment portfolio was caused by the selling of investments and using the proceeds to fund the loan growth experienced in the Commercial Segment. Net interest income grew as a result of having the combined investment portfolio for a full year after the merge in November 2006.

Treasury represented (2.6%) of total segment net income in 2007 as compared to (10.5%) in 2006. Treasury assets were \$268,484 at December 31, 2007 representing 19.7% of total consolidated assets. This compared to \$328,841 or 25.6% at December 31, 2006.

Wealth Management Segment. The Wealth Management Segment (Wealth) provides trust services, estate administration, financial planning, employee benefit plan administration, asset management, and brokerage transaction services. With the sale of these product lines in 2008 and the first quarter of 2009, this segment will not exist going forward.

2008 compared to 2007. The Wealth net loss increased during 2008 to \$(1,039) or (16.3%) of total segment net income in 2008 as compared to \$(365) or (3.2%) for the same period in 2007. This is primarily due to the write-down of goodwill related to the sale of asset management, brokerage and trust product lines that occurred throughout 2008. With the disposition of asset management and brokerage during the year, noninterest income declined as well as noninterest expenses. To partially offset these negative variances, allocations decreased in 2008 and the tax benefit was also larger in 2008. Wealth assets were \$162 at December 31, 2008 as compared to \$1,289 at December 31, 2007. This decline was the result of selling asset management and brokerage product lines.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

2007 compared to 2006. Wealth represented (3.2%) of total segment net income in 2007 and (5.6%) in 2006. Wealth assets were \$1,289 at December 31, 2007 and represented 0.1% of total consolidated assets. This compared to \$1,330 or 0.1% at December 31, 2006.

The improvement in earnings from 2006 to 2007 was the result of the sale of the Insurance business unit in late 2006. See Note 22 in the Notes to Consolidated Financial Statements for additional details on this transaction. Additionally in 2007, the revenue increased due to increased revenue from the brokerage product line.

Interest Rate Sensitivity Management

The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans and securities) which are primarily funded by interest-bearing liabilities (deposits and borrowings). All of the financial instruments of the Company are for other than trading purposes. Such financial instruments have varying levels of sensitivity to changes in market rates of interest. The operating income and net income of Centrue Bank depends, to a substantial extent, on rate differentials, i.e., the differences between the income Centrue Bank receives from loans, securities, and other earning assets and the interest expense they pay to obtain deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of Centrue Bank, including general economic conditions and the policies of various governmental and regulatory authorities.

The Company measures its overall interest rate sensitivity through a net interest income analysis. The net interest income analysis measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of changes in net interest income in the event of a sudden and sustained 100 to 200 basis point increase in market interest rates or a 100 to 200 basis point decrease in market rates. Due to the current rate environment, this analysis was done in 2008 using a 50 basis point decrease in rates versus the normal 100 to 200 basis point decrease. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements.

The tables below present the Company's projected changes in net interest income for 2008 and 2007 for the various rate shock levels.

	Change in Net Interest Income Over One Year Horizon			
	December 31, 2008		December 31, 2007	
	Change		Change	
	\$	%	\$	%
+200 bp	\$ 728	2.08%	\$ 305	0.74%
+100 bp	295	0.84	509	1.23
+ 50 bp	166	0.47	502	1.21
Base				
- 50 bp	(179)	(0.51)	(654)	(1.58)

Based on the Company's model at December 31, 2008, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by 2.08% or approximately \$728. The effect of an immediate 50 basis point decrease in rates would decrease the Company's net interest income by \$179 or 0.51%.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

Based on the Company's model at December 31, 2007, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by 0.74% or approximately \$305. The effect of an immediate 50 basis point decrease in rates would decrease the Company's net interest income by \$654 or 1.58%.

Throughout 2008, management continued to position our balance sheet to maximize the net interest margin. Throughout the year, steps were taken to lower our funding costs in reaction to FOMC rate reductions. The mix of our funding portion of the balance sheet has been adjusted to align it with our asset sensitive portion of the balance sheet to create better spreads in various sectors. With these changes, we have been able to reposition our funding and align it better with the shorter end of the yield curve which minimizes our exposure to the volatility found at the longer end of the yield curve. In the latter part of the year the Company began extending the duration of some of its borrowings to lock in lower rates.

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

Financial Condition

Loans and Asset Quality. Outstanding loans totaled \$1,004,390 at December 31, 2008 compared to \$957,285 at December 31, 2007, representing an increase of \$47,105 or 4.9%. The loan growth was largely generated in the St. Louis market and was concentrated in commercial real estate lending activity. Excluding \$30,100 in loans related to branch sales recorded in the first and second quarters of 2008, loans grew \$77,200 or 8.1% since year-end 2007. The Company has no direct exposure to sub prime mortgages.

The Company offers a broad range of products, including agribusiness, commercial, residential, and installment loans, designed to meet the credit needs of its borrowers. The Company's loans are diversified by borrower and industry group.

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

LOAN PORTFOLIO

Aggregate Principal Amount
December 31,

	2008	2007	2006	2005	2004
Commercial	\$ 152,807	\$ 181,210	\$ 154,829	\$ 91,537	\$ 91,941
Agricultural	16,914	21,861	23,118	26,694	28,718
Real estate:					
Commercial mortgages	460,920	362,920	274,909	126,503	129,597
Construction	164,820	159,274	116,608	68,508	38,882
Agricultural	17,339	23,560	27,624	33,033	30,601
1-4 family mortgages	185,666	198,208	226,884	57,920	77,566
Installment	5,267	8,611	11,998	12,747	21,502
Other	657	1,641	974	583	468
Total loans	\$ 1,004,390	\$ 957,285	\$ 836,944	\$ 417,525	\$ 419,275
Allowance for loan losses	(15,018)	(10,755)	(10,835)	(8,362)	(9,732)
Loans, net	\$ 989,372	\$ 946,530	\$ 826,109	\$ 409,163	\$ 409,543

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

LOAN PORTFOLIO

Aggregate Principal Amount
Percentage of Total Loan Portfolio
December 31,

	2008	2007	2006	2005	2004
Commercial	15.21%	18.93%	18.50%	21.92%	21.93%
Agricultural	1.68	2.28	2.76	6.39	6.85
Real estate:					
Commercial mortgages	45.89	37.91	32.85	30.31	30.91
Construction	16.41	16.64	13.93	16.41	9.27
Agricultural	1.73	2.46	3.30	7.91	7.30
1-4 family mortgages	18.49	20.71	27.11	13.87	18.50
Installment	0.52	0.90	1.43	3.05	5.13
Other loans	0.07	0.17	0.12	0.14	0.11
Gross loans	100.00%	100.00%	100.00%	100.00%	100.00%

As of December 31, 2008 and 2007, commitments of Centrue Bank under standby letters of credit and unused lines of credit totaled approximately \$258,471 and \$271,856, respectively.

Stated loan maturities (including rate loans reset to market interest rates) of the total loan portfolio, net of unearned income, at December 31, 2008 were as follows:

STATED LOAN MATURITIES ⁽¹⁾

	Within 1 Year	1 to 5 Years	After 5 Years	Total
Commercial	90,726	49,459	12,622	152,807
Agricultural	13,633	2,358	923	16,914
Real estate	283,526	306,203	239,016	828,745
Installment	1,406	3,049	1,469	5,924
Total	\$ 389,291	\$ 361,069	\$ 254,030	\$ 1,004,390

⁽¹⁾ Maturities based upon contractual maturity dates

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

Rate sensitivities of the total loan portfolio, net of unearned income, at December 31, 2008 were as follows:

LOAN REPRICING

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fixed rate	73,988	223,781	100,944	398,713
Variable rate	514,411	77,189	3,759	595,359
Nonaccrual	6,956	1,415	1,947	10,318
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 595,355	\$ 302,385	\$ 106,650	\$ 1,004,390
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

41.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

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

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

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

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

The following table sets forth a summary of nonperforming assets:

NONPERFORMING ASSETS

	December 31,				
	2008	2007	2006	2005	2004
Nonaccrual loans	\$ 10,318	\$ 4,090	\$ 11,759	\$ 3,082	\$ 3,649
Loans 90 days past due and still accruing interest				922	553
Total nonperforming loans	10,318	4,090	11,759	4,004	4,202
Other real estate owned	12,723	2,937	2,136	203	420
Total nonperforming assets	\$ 23,041	\$ 7,027	\$ 13,895	\$ 4,207	\$ 4,622

Nonperforming loans to total end of period loans	1.03%	0.43%	1.40%	0.96%	1.00%
Nonperforming assets to total end of period loans	2.29	0.73	1.66	1.01	1.10
Nonperforming assets to total end of period assets	1.64	0.51	1.08	0.62	0.69

The level of nonperforming loans at December 31, 2008 increased 152.3% to \$10,318 versus the \$4,090 that existed as of December 31, 2007. The increase of \$6,228 was largely related to the deterioration of several large loan relationships during 2008. The level of nonperforming loans to total end of period loans was 1.03% at December 31, 2008, as compared to 0.43% at December 31, 2007. The reserve coverage ratio (allowance to nonperforming loans) was reported at 145.55% as of December 31, 2008 as compared to 262.96% as of December 31, 2007.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

Other Potential Problem Loans. The Company has other potential problem loans that are currently performing, but where some concerns exist regarding the nature of the borrowers' projects in our current economic environment. During the fourth quarter, management identified \$24,800 of loans that are currently performing but due to the economic environment facing these borrowers were classified by management as impaired. Excluding nonperforming loans and loans that management has classified as impaired, there are other potential problem loans that totaled \$9,181 at December 31, 2008 as compared to \$1,485 at December 31, 2007. Included in this amount is a purchased participation for \$7,053. Early in 2009, it came to our attention that the lead bank was reevaluating the relationship's credit quality rating and status. At December 31, 2008 this loan was performing. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny and closer monitoring is prudent under the circumstances. Such classifications relate to specific concerns for each individual borrower and do not relate to any concentration risk common to all loans in this group.

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

The following table sets forth a summary of other real estate owned and other collateral acquired at December 31, 2008:

OTHER REAL ESTATE OWNED

	Number of Parcels	Net Book Carrying Value
Developed property	10	\$ 4,296
Vacant land or unsold lots	3	8,427
Total other real estate owned	13	\$ 12,723

Allowance for Loan Losses. At December 31, 2008, the allowance for loan losses was \$15,018 or 1.50% of total loans as compared to \$10,755 or 1.12% at December 31, 2007. The Company recorded a provision of \$8,082 to the allowance for loan losses in 2008 due largely to the deterioration of the overall economic conditions, workout activities on previously identified relationships and the identification of several additional relationships requiring workouts.

The methodology utilized by management to calculate the FAS 5 portion of the ALLL adequacy analysis is based upon historical losses over the last twenty quarters or 5 year average. The actual historical loss factors decreased since the earliest year rolling off had higher losses than the 2008 quarters being added. Increases to the SFAS 5 factors were needed to reflect increasing economic risk. This combines with the transfer of \$24,800 of higher risk loans from the SFAS 5 pool to the SFAS 114 impaired component of the Company's allowance calculation, resulted in a net decrease in the SFAS 5 portion of the allowance.

In conjunction with the Centrue merger, the Company acquired \$436,459 in gross loans. Centrue's allowance for loan losses at the acquisition date, not allocated to impaired loans, was \$4,767. The Company applied the guidance required under the American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3) and determined that certain loans acquired in the merger had evidence of deterioration of credit quality since origination and were probable that all contractual required payments would not be collected on these loans. The Company determined that 54 loans with a book value totaling approximately \$11,796 and a fair value of \$9,379 were within the guidelines set forth under SOP 03-3. The Company recorded these at their fair value and reduced the allowance for loan losses by \$2,416. Accordingly, the Company recorded \$4,767 of allowance for loan losses on loans not subject to SOP 03-3.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

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

general economic conditions;

the type of loan being made;

the creditworthiness of the borrower over the term of the loan; and

in the case of a collateralized loan, the quality of the collateral for such a loan.

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

ultimate collectibility of the loans in its portfolio;

incorporating feedback provided by internal loan staff;

the independent loan review function; and

information provided by examinations performed by regulatory agencies.

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

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

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

general portfolio allocation based on historical loan loss experience for each loan category; and

subjective reserves based on general economic conditions as well as specific economic factors in the markets in which the Company operates.

The specific credit allocation component of the allowance for loan losses is based on a regular analysis of loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The fair value of the loan is determined based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less cost of sale.

The general portfolio allocation component of the allowance for loan losses is determined statistically using a loss migration analysis that examines historical loan loss experience. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The general portfolio allocation element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed monthly, and as adjustments, either positive or negative, become necessary, a corresponding increase or decrease is made in the provision for loan losses. The methodology used to determine the adequacy of the allowance for loan losses is consistent with prior years.

A strategy to reduce exposure to construction lending that began earlier in 2008 continued in the fourth quarter with construction and land development loans declining by \$12,000 or 6.8% from first quarter 2008 and \$3,000 or 1.8% from third quarter 2008. Construction and land development loans now represent 16.4% of the total loan portfolio, down from 17.4% recorded in the first quarter 2008. In comparison to December 31, 2007, this category grew \$21,496 to 18.0% of the total portfolio as of June 30, 2008. Since June 30, 2008, it declined \$15,848 to 16.4% of the total portfolio. The Company has no direct exposure to sub-prime mortgages.

Management continues to diligently monitor the loan portfolio, paying particular attention to borrowers with residential real estate exposure. While virtually all of these relationships are performing, the economic outlook for this industry will likely remain extremely challenging well into 2009. Should the economic climate deteriorate from current levels, borrowers may experience repayment difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise requiring further increases in the provision for loan losses.

The following table presents a detailed analysis of the Company's allowance for loan losses:

ALLOWANCE FOR LOAN LOSSES

	December 31,				
	2008	2007	2006	2005	2004
Beginning balance	\$ 10,755	\$ 10,835	\$ 8,362	\$ 9,732	\$ 9,011
Charge-offs:					
Commercial	479	797	552	342	1,497
Real estate mortgages	3,545	651	1,044	1,611	389
Installment and other loans	82	119	88	367	578
Total charge-offs	4,106	1,567	1,684	2,320	2,464
Recoveries:					
Commercial	\$ 208	\$ 442	223	394	1,021
Real estate mortgages	27	263	357	208	230
Installment and other loans	52	107	85	98	184
Total recoveries	\$ 287	\$ 812	665	700	1,435
Net charge-offs	3,819	755	1,019	1,620	1,029
Provision for loan losses	\$ 8,082	\$ 675	(1,275)	250	1,924
Reduction due to sale of loans					174
Increase due to merger			4,767		
Ending balance	\$ 15,018	\$ 10,755	\$ 10,835	\$ 8,362	\$ 9,732
Period end total loans	\$ 1,004,390	\$ 957,285	\$ 836,944	\$ 417,525	\$ 419,275
Average loans	\$ 992,024	\$ 902,658	\$ 464,968	\$ 411,783	\$ 447,605

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

ALLOWANCE FOR LOAN LOSS RATIOS

	December 31,				
	2008	2007	2006	2005	2004
Ratio of net charge-offs to average loans	0.38%	0.08%	0.22%	0.39%	0.23%
Ratio of provision for loan losses to average loans	0.81	0.07	(0.27)	0.06	0.43
Ratio of allowance for loan losses to ending total loans	1.50	1.12	1.29	2.00	2.32
Ratio of allowance for loan losses to total nonperforming loans	145.55	262.96	92.14	208.84	231.60

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

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

	December 31,									
	2008		2007		2006		2005		2004	
	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans
Commercial	2,717	16.89%	4,013	21.21%	\$ 4,888	21.26%	\$ 7,386	28.32%	\$ 6,035	28.78%
Real estate	12,201	82.52	6,553	77.72	5,668	77.19	773	68.49	3,311	65.98
Installment and other loans	100	0.59	189	1.07	279	1.55	203	3.19	386	5.24
Total	\$ 15,018	100.00%	\$ 10,755	100.00%	\$ 10,835	100.00%	\$ 8,362	100.00%	\$ 9,732	100.00%

Securities Activities. The primary objective of the Company's \$252,562 securities portfolio, which represented 18.7% of the Company's average earning asset base as of December 31, 2008, as compared to 23.3% as of December 31, 2007, is to minimize interest rate risk, maintain sufficient liquidity, and maximize return. In managing the securities portfolio, the Company minimizes any credit risk and avoids investments in sophisticated and complex investment products. The portfolio includes several callable agency debentures, adjustable rate mortgage pass-throughs, and collateralized mortgage obligations. Corporate bonds consist of investment grade obligations of public corporations. Equity securities consist primarily of trust preferred stock as well as CRA, FAMC and IBBI stock. The Company does not hold any securities containing Fannie Mae or Freddie Mac equities.

The Company's financial planning anticipates income streams generated by the securities portfolio based on normal maturity and reinvestment. Securities classified as available-for-sale, carried at fair value, were \$241,851 at December 31, 2008 compared to \$238,661 at December 31, 2007. The Company does not have any securities classified as trading or held-to-maturity. The Company also holds \$10,711 and \$10,670 of Federal Reserve and Federal Home Loan Bank stock which are classified as restricted securities as of December 31, 2008 and December 31, 2007, respectively.

As of December 31, 2008, the Company held nine pooled trust preferred securities involving three hundred issuers with a total book value of \$25,200. The investments in trust-preferred securities receive principal and interest payments from several pools of subordinated capital

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

debentures with each pool containing issuance by a minimum of twenty two banks or, in a few instances, capital notes from insurance companies. During the fourth quarter, the Company recorded a pre-tax non-cash impairment charge totaling \$2,735 based upon management's determination that certain trust preferred securities with an aggregate cost of \$5,800 were other than temporarily impaired. This charge largely reflects deteriorating cash flows within one of these pools and illiquidity and credit concerns within the financial markets.

Centrue Financial Corporation
Management's Discussion And Analysis Of Financial Condition And
Results Of Operations
(In Thousands, Except Share Data)

Management has determined that the remaining \$22,100 of trust-preferred securities is deemed to be only temporarily impaired at this time. An unrealized loss of approximately \$3,300 associated with these securities has been recorded, on an after-tax basis, through stockholders equity as a component of other comprehensive income.

Should the economic climate deteriorate from current levels, the underlying credits may experience repayment difficulty, and the level of deferrals and defaults could increase requiring additional impairment charges in future quarters. Centrue does not hold any securities containing sub-prime mortgages or Fannie Mae or Freddie Mac equities.

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

SECURITIES PORTFOLIO
(Dollars in Thousands)

	December 31,					
	2008		2007		2006	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
Available-for-Sale						
U.S. government agencies	16,995	7.03	103,624	43.42	126,039	43.43
U.S. government agency mortgage backed securities	143,378	59.28	47,784	20.02	69,579	23.97
States and political subdivisions	38,202	15.80	41,561	17.41	41,471	14.29
Collateralized mortgage obligations	20,004	8.27	24,077	10.09	27,237	9.39
Corporate bonds	1,928	0.80	2,741	1.15	8,764	3.02
Other securities	21,344	8.82	18,874	7.91	17,134	5.90
Total	\$ 241,851	100.00%	\$ 238,661	100.00%	\$ 290,224	100.00%

The following table sets forth the contractual, callable or estimated maturities and yields of the debt securities portfolio as of December 31, 2008. Mortgage backed and collateralized mortgage obligation securities are included at estimated maturity.

MATURITY SCHEDULE
(Dollars in Thousands)

	Maturing								
	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
Available-for-Sale									
U.S. government agencies and corporations	560	4.881%	13,188	5.331%	3,247	6.000%			%