

CENTRUE FINANCIAL CORP

Form 10-Q

May 12, 2004

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

FORM 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended March 31, 2004.

or

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

Commission File Number **1-13676**

CENTRUE FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

36-3846489

(State or Other Jurisdiction of Incorporation
or Organization)

(I.R.S. Employer Identification Number)

310 South Schuyler Avenue, Kankakee, Illinois

60901

(Address of Principal Executive Offices)

(Zip Code)

(815) 937-4440

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 11, 2004, there were 2,557,816 issued and outstanding shares of the Issuer's common stock.

CENTRUE FINANCIAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements (Unaudited)

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

| | March 31 2004 | December 31 2003 |
|--|-------------------------------|-----------------------------|
| | (dollars in thousands) | |
| Assets | | |
| Cash and due from banks | \$ 13,183 | \$ 13,558 |
| Interest bearing due from banks and other | 3,418 | 14,831 |
| Federal funds sold | 3,018 | 17,216 |
| | <hr/> | <hr/> |
| Cash and cash equivalents | 19,619 | 45,605 |
| Certificates of Deposit | 348 | 50 |
| Investment Securities: | | |
| Available-for-sale, at fair value | 114,647 | 87,712 |
| Held-to-maturity, (fair value: \$703 and \$912) | 681 | 892 |
| Loans, net of allowance for loan losses of (\$7,728 and \$7,471) | 424,869 | 425,840 |
| Loans held for sale | 1,067 | |
| Premises and equipment | 17,250 | 17,113 |
| Goodwill | 12,446 | 11,433 |
| Life insurance contracts | 8,852 | 8,752 |
| Non-marketable equity securities | 3,746 | 3,298 |
| Accrued interest receivable | 2,781 | 2,552 |
| Intangible assets | 1,957 | 1,229 |
| Real estate held for sale | 634 | 319 |
| Other assets | 3,082 | 4,413 |
| | <hr/> | <hr/> |
| Total Assets | \$611,979 | \$ 609,208 |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing | \$ 49,530 | \$ 42,400 |
| Interest bearing | 457,971 | 451,952 |
| | <hr/> | <hr/> |
| Total Deposits | 507,501 | 494,352 |
| Borrowings | 41,908 | 54,396 |
| Junior subordinated debt owed to unconsolidated trusts | 10,000 | 10,000 |
| Other liabilities | 5,920 | 4,817 |
| | <hr/> | <hr/> |

| | | | |
|---|---|-------------------|-------------------|
| Total Liabilities | | 565,329 | 563,565 |
| Stockholders' Equity | | | |
| Preferred stock, \$.01 par value | 500,000 shares authorized and unissued | | |
| Common stock, \$.01 par value | 5,500,000 authorized; 4,200,300 shares issued | 42 | 42 |
| Additional paid-in capital | | 28,952 | 28,929 |
| Retained income, partially restricted | | 39,881 | 39,231 |
| Accumulated other comprehensive income | | 1,342 | 1,088 |
| Unearned restricted stock (26,400 and 27,800 shares) | | (722) | (820) |
| Treasury stock, (1,592,484 and 1,594,278 shares), at cost | | (22,845) | (22,827) |
| | | <u> </u> | <u> </u> |
| Total Stockholders' Equity | | 46,650 | 45,643 |
| | | <u> </u> | <u> </u> |
| Total Liabilities and Stockholders' Equity | | \$611,979 | \$609,208 |

See the accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31 | |
|--|--|-------------|
| | 2004 | 2003 |
| | (dollars in thousands) | |
| Interest income: | | |
| Loans | \$6,293 | \$6,211 |
| Investments | 940 | 975 |
| Deposits with banks and other | 75 | 103 |
| FHLB stock dividends | 57 | 44 |
| | <hr/> | <hr/> |
| Total interest income | 7,365 | 7,333 |
| Interest expense: | | |
| Deposits | 2,099 | 2,614 |
| Borrowings | 580 | 588 |
| Junior subordinated debt owed to unconsolidated trusts | 113 | 140 |
| | <hr/> | <hr/> |
| Total interest expense | 2,792 | 3,342 |
| | | |
| Net interest income | 4,573 | 3,991 |
| Provision for loan losses | 300 | 66 |
| | <hr/> | <hr/> |
| Net interest income after provision for loan losses | 4,273 | 3,925 |
| Noninterest income: | | |
| Fee income | 892 | 633 |
| Net gain on sale of securities | 89 | |
| Net gain (loss) on sale of real estate held for sale | (7) | 26 |
| Net gain on sale of loans | 106 | 382 |
| Gain on sale of branch | | 478 |
| Increase in cash surrender value of life insurance | 100 | 112 |
| Other | 69 | 110 |
| | <hr/> | <hr/> |
| Total noninterest income | 1,249 | 1,741 |
| Noninterest expense: | | |
| Compensation and benefits | 2,263 | 1,908 |
| Occupancy, net | 394 | 339 |
| Furniture and equipment | 335 | 176 |
| Advertising | 64 | 106 |
| Data processing | 163 | 132 |

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| | | |
|--|-------------------|-------------------|
| Telephone and postage | 129 | 138 |
| Amortization of intangibles | 46 | 38 |
| Legal and professional fees | 236 | 220 |
| Other | 679 | 612 |
| | <u> </u> | <u> </u> |
| Total noninterest expense | 4,309 | 3,669 |
| | <u> </u> | <u> </u> |
| Income before income taxes | 1,213 | 1,997 |
| Income tax expense | 368 | 627 |
| | <u> </u> | <u> </u> |
| Net income | \$ 845 | \$1,370 |
| Other comprehensive income (loss): | | |
| Change in unrealized gains on available for sale securities, net of related income taxes | 313 | (169) |
| Less: reclassification adjustment for gains included in net income net of related income taxes | 59 | |
| | <u> </u> | <u> </u> |
| Other comprehensive income (loss) | 254 | (169) |
| | <u> </u> | <u> </u> |
| Comprehensive income | \$1,099 | \$1,201 |
| Basic earnings per share | \$.33 | \$.64 |
| Diluted earnings per share | \$.33 | \$.64 |
| Dividends per share | \$.075 | \$.075 |

See notes to the accompanying consolidated financial statements

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

| | Three Months Ended March 31 | |
|---|--|-------------|
| | 2004 | 2003 |
| | (dollars in thousands) | |
| Operating activities | | |
| Net income | \$ 845 | \$ 1,370 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 300 | 66 |
| Depreciation and amortization | 381 | 242 |
| Net amortization on investments | (37) | 32 |
| Amortization of intangibles | 46 | 38 |
| Deferred income taxes | 828 | |
| Origination of loans held for sale | (5,985) | (15,065) |
| Proceeds from sales of loans held for sale | 5,024 | 14,681 |
| Gain on sale of loans | (106) | (382) |
| Gain on sale of investments, net | (89) | |
| (Gain) loss on sale of real estate held for sale | 7 | (26) |
| Gain on sale of branch | | (478) |
| Compensation expense for restricted stock | 98 | |
| Increase in cash surrender value of life insurance | (100) | (112) |
| Federal Home Loan Bank stock dividends | (53) | (75) |
| Changes in: | | |
| Accrued interest receivable | (125) | 103 |
| Other assets and other liabilities, net | 1,104 | 616 |
| | 2,138 | 1,010 |
| Investing activities | | |
| Purchases of available for sale securities | (28,289) | (6,905) |
| Proceeds from sales of available for sale securities | 3,948 | |
| Proceeds from maturities of available for sale securities | 6,580 | 12,637 |
| Proceeds from maturities of held-to-maturity securities | 210 | 177 |
| Proceeds from sales of real estate held for sale | 197 | 157 |
| Cash paid for branch sale | | (12,315) |
| Purchase of Parish Bank and Trust Company | 38 | |
| Net decrease in loans | 7,494 | 17,166 |
| Purchases of bank premises and equipment | (249) | (1,441) |
| | (10,071) | 9,476 |
| Financing activities | | |
| Net increase (decrease) in deposits | (5,375) | 7,161 |
| Proceeds of borrowings | | 800 |

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| | | |
|---|-------------------|-------------------|
| Repayments of borrowings | (12,488) | (11,500) |
| Proceeds from exercise of stock options | 94 | |
| Dividends paid | (195) | (174) |
| Purchase of treasury stock | (89) | (9,308) |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | (18,053) | (13,021) |
| | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | (25,986) | (2,535) |
| Cash and cash equivalents beginning of year | 45,605 | 47,426 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents end of period | \$ 19,619 | \$ 44,891 |

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Supplemental disclosure of cash flow information

| | | |
|---|----------|-------------------|
| Interest paid | \$ 2,602 | \$ 3,201 |
| Income taxes paid | | 150 |
| Real estate acquired in settlement of loans | 519 | |
| Sale of branch: | | |
| Assets disposed: | | |
| Loans | | \$ (6,370) |
| Interest receivable | | (24) |
| Premises and equipment | | (165) |
| Other assets | | (197) |
| Liabilities assumed by buyer: | | |
| Demand deposits | | 2,162 |
| Certificates of deposit | | 17,243 |
| Other liabilities | | 144 |
| Gain on sale of branch | | (478) |
| | | <u> </u> |
| Cash paid | | \$12,315 |

Acquisition of Parish Bank and Trust Company:

| | | |
|---------------------------------|-------------------|--|
| Assets acquired: | | |
| Certificates of Deposit | \$ (298) | |
| Investments | (8,616) | |
| Loans, net | (7,342) | |
| Interest receivable | (104) | |
| Premises and equipment | (269) | |
| Goodwill | (1,013) | |
| Intangibles | (774) | |
| Other assets | (157) | |
| Liabilities assumed: | | |
| Non-interest bearing deposits | 5,462 | |
| Interest-bearing deposits | 13,062 | |
| Other liabilities | 87 | |
| | <u> </u> | |
| Cash received, net of cash paid | \$ 38 | |

See the accompanying notes to consolidated financial statements.

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2004

Note 1 Basis of Presentation

The consolidated financial statements of Centrue Financial Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2003 balance sheet has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for the Company on Form 10-K for the year ended December 31, 2003.

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

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of mortgage servicing rights, goodwill, and real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of real estate acquired by foreclosure, management obtains independent appraisals for significant properties.

Certain 2003 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2004.

The Company has a stock-based employee compensation plan, which is described more fully in the Company's annual report on Form 10-K for the year ended December 31, 2003. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair

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value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

| | Three Months Ended March 31 | |
|--|--|-------------|
| | 2004 | 2003 |
| | (dollars in thousands) | |
| Net income, as reported | \$ 845 | \$ 1,370 |
| Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes | 39 | — |
| Pro forma net income | \$ 806 | \$ 1,370 |
| Earnings per share: | | |
| Basic as reported | \$.33 | \$.64 |
| Basic pro forma | .31 | .64 |
| Diluted as reported | .33 | .64 |
| Diluted pro forma | .31 | .64 |

Note 2 Common Stock Split

On October 30, 2003, the Company issued 1,282,761 additional shares to effect a 2-for-1 common stock split. All share and per share amounts have been retroactively adjusted for this split as if it occurred on January 1, 2003.

Note 3 Earnings Per Share

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

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| | Three Months Ended March 31 | |
|---|--|-------------|
| | 2004 | 2003 |
| (Dollars in thousands) | | |
| Basic | | |
| Net Income | \$ 845 | \$ 1,370 |
| Average common shares outstanding | 2,580,331 | 2,134,328 |
| Net income per common share basic | \$.33 | \$.64 |
| Diluted | | |
| Net Income | \$ 845 | \$ 1,370 |
| Average common shares outstanding | 2,580,331 | 2,134,328 |
| Dilutive potential due to stock options | 9,678 | 2,206 |
| Average common shares outstanding | 2,590,009 | 2,136,534 |
| Net income per common share diluted | \$.33 | \$.64 |

Note 4 Acquisition of Parish Bank and Trust Company

On March 5, 2004, the Company acquired for cash all of the outstanding shares of Parish Bank and Trust Company (Parish Bank) for a total cost of \$4.5 million. The acquisition has been accounted for using the purchase method of accounting. As such, the results of operations of the acquired entity are excluded from the consolidated financial statements of income for the periods prior to the acquisition date. The purchase price has been allocated based on the fair values at the date of acquisition. This allocation resulted in intangible assets of \$773,000 and goodwill of \$1.0 million. The intangible assets are being amortized over ten years. At closing, Parish Bank had assets of \$21.5 million, including \$7.3 million of loans, deposits of \$18.5 million and stockholders' equity of \$2.9 million. This acquisition was not considered material to the Company as a whole and therefore, proforma information is not included.

Note 5 Adoption of FASB Interpretation No. 46

The Company has adopted FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003)* in connection with its consolidated financial statements for the quarter ended March 31, 2004. FIN 46 establishes accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE entity is the entity that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationship with a VIE. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The implementation of FIN 46, as revised, required the Company to de-consolidate

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its investment in Kankakee Capital Trust I as of March 31, 2004, because the Company is not the primary beneficiary. The Company's prior financial statements have been reclassified to de-consolidate the Company's investment in the Trust. There has been no impact on shareholders equity or net income upon adoption of the standard.

Note 6 Junior Subordinated Debt Owed to Unconsolidated Trusts

In April 2002, the Company issued \$10.0 million in cumulative trust preferred securities through a newly formed special-purpose trust, Kankakee Capital Trust I, L.P. The proceeds of the offering were invested by Capital Trust I in junior subordinated deferrable interest debentures of the Company. Capital Trust I is a wholly-owned unconsolidated subsidiary of the Company, and its sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a variable rate of 3.70% over the LIBOR rate (an effective rate of 4.92% at March 31, 2004) per annum of the stated liquidation amount of \$1,000 per preferred security. Interest expense on the trust preferred securities was \$113,000 and \$140,000 for the three months ended March 31, 2004 and 2003, respectively. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company. The trust preferred securities are mandatorily redeemable upon the maturity of the debentures on April 7, 2032, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 7, 2007. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's capital stock. For regulatory purposes, the entire amount of the capital securities is allowed in the calculation of Tier 1 capital.

Note 7 Subsequent Events

On April 22, 2004, the Company issued \$10.0 million in trust preferred securities as part of a large pool of such securities. These securities carry a variable rate of interest, and are currently includable, within specified limits, in regulatory capital. The proceeds from the issuance of these securities could be used for a number of corporate purposes, including the repurchase of stock, funding of an acquisition or the purchasing of securities as part of a leveraging strategy. Interest payments on these securities are deductible for income tax purposes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

The Company serves the financial needs of families and local businesses in its primary market areas through its main banking office at 310 South Schuyler Avenue, Kankakee, Illinois and nineteen branch offices. The Company's market areas include western Indiana, central and southern Illinois, and the metropolitan St. Louis, Missouri markets. The Company's business involves attracting deposits from the general public and using such deposits to originate commercial business, commercial real estate, consumer, multi-family, construction loans and residential mortgage loans in its market areas. The Company also invests in investment securities and various types of short term liquid assets.

On October 9, 2003, the Company merged with Aviston Financial Corporation. At the time of the merger, Aviston Financial had approximately \$98.0 million in total assets and operated three locations in southwestern Illinois, including its newest office in Fairview Heights, which is

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10 miles from downtown St. Louis. Subsequent to the merger, the remaining corporation changed its name to Centrue Financial Corporation. On October 17, 2003, the subsidiary banks were merged to form Centrue Bank, a state-chartered commercial bank. On March 5, 2004, the Company acquired Parish Bank and Trust Company in Momence, Illinois, which was merged into Centrue Bank. At the time of the acquisition, Parish Bank had approximately \$21.5 million in total assets. The Company has approximately 178 full time equivalent employees.

FINANCIAL CONDITION

The Company's total assets were \$612.0 million at March 31, 2004, an increase of \$2.8 million or 0.5%, from \$609.2 million at December 31, 2003. The increase in total assets was primarily due to the acquisition of Parish Bank, partially offset by repayments on higher rate borrowings and reductions of higher rate certificates of deposit. Fluctuations in asset accounts were represented by an increase in investment securities of \$26.7 million, goodwill of \$1.0 million, and intangible assets of \$728,000. These increases were partially offset by a decrease in cash and cash equivalents of \$26.0 million and a decrease in other assets of \$1.3 million.

Cash and cash equivalents decreased \$26.0 million or 57.0% to \$19.6 million from \$45.6 million. Investment securities increased \$26.7 million or 30.2% to \$115.3 million from \$88.6 million. The increase in investment securities and decrease in cash and cash equivalents was primarily a result of the Company repositioning lower yielding liquid investments such as federal funds sold to higher yielding investment securities. This repositioning has already had a positive impact on the Company's net interest margin.

Goodwill increased \$1.0 million or 8.9% to \$12.4 million from \$11.4 million. Intangible assets increased \$728,000 or 59.2% to \$2.0 million from \$1.2 million. The increase in goodwill and intangible assets was a result of the acquisition of Parish Bank.

Other assets decreased \$1.3 million or 30.2% to \$3.1 million from \$4.4 million. The decrease in other assets was primarily due to a decrease in deferred taxes. The decrease in deferred taxes is primarily due to changes in the Company's tax position as a result of acquisitions and other tax related items through March 31, 2004.

Deposits increased \$13.1 million or 2.7% to \$507.5 million from \$494.4 million. The increase in deposits was also primarily attributable to the acquisition of Parish Bank. Due to the increase in deposits from Parish Bank, the Company was able to repay higher rate borrowings and reduce high rate certificates of deposit. Borrowings decreased \$12.5 million or 23.0% to \$41.9 million from \$54.4 million. The decrease in borrowings was due to higher rate (4.0%) borrowings that matured late in March, 2004.

Stockholders' equity increased \$1.0 million or 2.2% to \$46.7 million from \$45.6 million at December 31, 2003. Equity per share of common stock increased by \$0.38 to \$17.89 at March 31, 2004 from \$17.51 at December 31, 2003.

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

During the first quarter, total nonperforming loans increased \$3.8 million due to an increase of loans delinquent 90 days or more and still accruing. The increase was primarily due to one large commercial borrower. This nonperforming loan matured at year end 2003. During the first quarter of 2004, the Company had ongoing negotiations to resolve and extend the maturity but was unable to achieve a satisfactory agreement. The Company has downgraded this relationship to substandard as it appears headed for legal collection action. As of March 31, 2004, the Company does not anticipate a material loss on this nonperforming loan. Management is in various stages of workout or liquidation with the remaining nonperforming loans.

| | March 31 2004 | December 31 2003 | Change |
|---|-------------------------------|-----------------------------|---------------|
| | (dollars in thousands) | | |
| Non-accruing loans | \$ 3,062 | \$ 3,248 | \$ (186) |
| Accruing loans delinquent 90 days or more | 6,265 | 2,232 | 4,033 |
| Total nonperforming loans | 9,327 | 5,480 | 3,847 |
| Foreclosed assets | 634 | 319 | 315 |
| Troubled debt restructuring | 47 | 281 | (234) |
| Total nonperforming assets | \$10,008 | \$ 6,080 | \$3,928 |
| Allowance for loan losses to nonperforming loans | 82.86% | 136.34% | |
| Nonperforming loans to total loans | 2.15% | 1.26% | |
| Nonperforming assets to total loans and foreclosed property | 2.30% | 1.40% | |
| Nonperforming assets to total assets | 1.64% | 1.00% | |

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance for loan losses to total loans. The ratio of the allowance for loan losses to total loans was 1.78% and 1.72% at March 31, 2004 and December 31, 2003, respectively. The ratio of the allowance for loan losses to non-performing loans decreased to 82.9% as of March 31, 2004 compared to 136.3% at December 31, 2003. The decrease in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of the increase of \$3.8 million of nonperforming loans.

Total classified loans at March 31, 2004 decreased to \$24.7 million compared to \$25.1 million at December 31, 2003. During 2003, the Company adopted a new loan policy and implemented new loan approval, documentation and monitoring processes. The Company also recruited and employed an experienced commercial lending team including three new regional presidents, each of whom is an experienced commercial lender, as well as two other seasoned

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commercial lenders. These initiatives have already had a positive impact on the monitoring of the loan portfolio. The Company will continue to attempt to improve the loan monitoring processes.

The Company recognized charge offs in the amount of \$199,000 during the first quarter of 2004 and had no chargeoffs during the first quarter of 2003. No recoveries were recorded for either period. The provision for loan losses totaled \$300,000 and \$66,000 during the first quarters of 2004 and 2003. In addition, the Company acquired \$156,000 of allowance for loan losses with the Parish acquisition.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses in the loan portfolio. Management's methodology to determine the adequacy of the allowance for loan losses considers specific credit reviews, past loan loss experience, current economic conditions and trends, and the volume, growth and composition of the loan portfolio. Based upon the Company's quarterly analysis of the adequacy of the allowance for loan losses, considering remaining collateral of loans with more than a normal degree of risk, historical loan loss percentages and economic conditions, it is management's belief that the allowance for loan losses at March 31, 2004 was adequate. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

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

The allowance for loan losses is charged when management determines that the prospects of recovery of the principal of a loan have significantly diminished. Subsequent recoveries, if any, are credited to the allowance for loan losses. Credit card loans are charged off at the earliest of notice of bankruptcy, when at least 120 days past due, or when otherwise deemed to be uncollectible. All other installment loans that are 90 to 120 days past due are charged off monthly unless the loans are insured for credit loss or where scheduled payments are being received. Real estate mortgage loans are written down to fair value upon foreclosure. Commercial and other loan charge-offs are made based on management's on-going evaluation of non-performing loans.

CRITICAL ACCOUNTING POLICIES

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

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and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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

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

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

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

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RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2004 AND 2003

For the three months ended March 31, 2004, net income decreased \$525,000 to \$845,000 from \$1.4 million for the three months ended March 31, 2003. The decrease in net income was primarily due to the \$478,000 gain on sale of the Company's Hoopston branch that was recorded during the first quarter of 2003. Also affecting net income were increases in the provision for loan losses of \$234,000 and in noninterest expenses of \$640,000, which were partially offset by an increase in net interest income of \$582,000 and a decrease in income tax expense of \$259,000.

Net interest income for the quarter increased \$582,000 or 14.6% to \$4.6 million, from \$4.0 million in 2003. Interest income increased by \$32,000 or 0.4% and interest expense decreased by \$550,000 or 16.5%. Net interest margin increased to 3.32% compared to 3.28% for 2003. The increase in the net interest margin was primarily a result of the Company's effort to replace lower earning assets, such as federal funds sold, with higher yielding loans and tax-advantaged investments. In addition, the Company decreased rates on deposit accounts to be more in line with local competition and repaid certain high rate borrowings. With the decrease in interest rates during the quarter, the Company has lowered the cost of funds for deposits and borrowings.

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TABLE I
NET INTEREST INCOME ANALYSIS (UNAUDITED)
CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY
Three Months Ended March 31,

| | 2004 | | | 2003 | | |
|--|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
| | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate |
| (Dollars in Thousands) | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable (1) (3) | \$430,213 | \$ 6,315 | 5.93% | \$371,992 | \$6,211 | 6.77% |
| Investments securities (2) (3) | 94,588 | 976 | 4.13% | 81,038 | 975 | 4.88% |
| Other interest-earning assets | 33,658 | 75 | 0.90% | 37,017 | 103 | 1.13% |
| FHLB stock | 3,323 | 57 | 6.81% | 2,789 | 44 | 6.40% |
| | <hr/> | <hr/> | | <hr/> | <hr/> | |
| Total interest-earning assets | 561,782 | 7,423 | 5.33% | 492,836 | 7,333 | 6.03% |
| Other assets | 49,038 | | | 41,861 | | |
| | <hr/> | | | <hr/> | | |
| Total assets | \$610,820 | | | \$534,697 | | |
| Interest-bearing liabilities: | | | | | | |
| Certificate accounts | \$272,039 | 1,759 | 2.60% | \$245,966 | 2,074 | 3.42% |
| Savings deposits | 87,635 | 147 | 0.68% | 73,709 | 231 | 1.27% |
| Demand and NOW deposits | 87,441 | 193 | 0.89% | 79,646 | 309 | 1.57% |
| Borrowings | 62,586 | 693 | 4.51% | 65,950 | 728 | 4.48% |
| | <hr/> | <hr/> | | <hr/> | <hr/> | |
| Total interest-bearing liabilities | 509,701 | 2,792 | 2.21% | 465,271 | 3,342 | 2.91% |
| Non-interest bearing demand deposits | 50,368 | | | 27,683 | | |
| Other liabilities | 4,662 | | | 4,387 | | |
| | <hr/> | | | <hr/> | | |
| Total liabilities | 564,731 | | | 497,341 | | |
| Stockholders' equity | 46,089 | | | 37,356 | | |
| | <hr/> | | | <hr/> | | |
| Total liabilities and stockholders' equity | \$610,820 | | | \$534,697 | | |
| Net interest income | | \$ 4,631 | | | \$3,991 | |

| | | | |
|---|-----------|---------|-----------|
| Net interest rate spread | | 3.12% | 3.12% |
| Net earning assets | \$ 52,081 | | \$ 27,565 |
| Net yield on average interest-earning assets (net interest margin) | | 3.32% | 3.28% |
| Average interest-earning assets to average interest-bearing liabilities | | 110.22% | 99.98% |

- (1) Calculated including loans held for sale, and net of deferred loan fees, loan discounts, loans in process and the allowance for losses on loans.
- (2) Calculated including investment securities available-for-sale and certificates of deposit.
- (3) Presented on a fully tax-equivalent basis, assuming a tax rate of 34%.

Interest income increased \$32,000, to \$7.4 million. The increase was primarily attributable to an increase in average earning assets, partially offset by a decrease in interest rates. Average earning assets increased \$68.9 million to \$561.7 million from \$492.8 million in 2003. The average tax equivalent rate earned on earning assets decreased 70 basis points to 5.33% from 6.03%. The increase in the average balance of interest-earning assets was primarily due

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to earning assets acquired in the Aviston Financial and Parish Bank acquisitions, partially offset by the first quarter of 2003 sale of the Hoopeston branch. The decrease in the yield earned on interest-earning assets was the result of the gradual repricing of loans and investments to lower interest rates throughout 2003 and the first quarter of 2004.

Interest expense decreased \$550,000 to \$2.8 million from \$3.3 million in 2003. The decrease was primarily attributable to a decrease in the rate paid on average interest bearing liabilities, partially offset by an increase in the average balance of interest bearing liabilities. Average interest-bearing liabilities increased \$44.4 million to \$509.7 million from \$465.3 million. The rate paid on interest bearing liabilities decreased 71 basis points to 2.21% from 2.91% in 2003. The increase in average interest-bearing liabilities was primarily attributable to interest-bearing liabilities assumed in the Aviston Financial and Parish Bank acquisitions, partially offset by the sale of the Hoopeston branch as well as the repayment of borrowed funds. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates and continuing improvement in the deposit mix, with a lower ratio of certificate of deposit accounts.

The provision for loan losses increased \$234,000 to \$300,000 from \$66,000 in 2003. The increase in the provision for loan losses was primarily due to the Company's efforts to properly identify potential loan losses when they occur. Several initiatives to more effectively monitor the risk involved in the loan portfolio were put in place during the latter part of 2003 and have continued in 2004. The amount of the provision for losses on loans is determined through regular review of the various elements of the loan portfolio, and by a review of overall adequacy, based on circumstances and factors known at the time of the review.

Noninterest income decreased \$492,000 to \$1.2 million from \$1.7 million in 2003. The decrease was primarily attributable to a decrease in the gain on the sale of the Hoopeston branch of \$478,000 and a decrease in gain on sale of loans of \$276,000, partially offset by an increase in fee income of \$259,000. The decrease in gain on sale of loans was primarily due to a high volume of refinancings that occurred during the first quarter of 2003. Due to the rate structure in early 2004 and the large amount of loans that refinanced during 2002 and 2003, the amount of refinancings has greatly decreased and the majority of the gain on loans sold in the first quarter of 2004 was primarily attributable to new loans. It would appear that the gain on sale of loans during the remainder of 2004 will be significantly less than 2003 or 2002. The increase in fee income was partially due to an increase in fees assessed on customer accounts and transactions to better reflect the competitive environment.

Noninterest expenses increased \$640,000 to \$4.3 million from \$3.7 million in 2003. The increase was primarily due to an increase in compensation and benefits of \$355,000 and furniture and equipment of \$159,000. Compensation and benefits and furniture and equipment increased primarily due to the addition of personnel and branches that were added due to the merger with Aviston Financial in the fourth quarter of 2003, the opening of three new offices, Parish Bank personnel added in the beginning of March 2004, as well as the amortization of restricted stock awards that were awarded in late 2003.

Income tax expense decreased \$259,000 to \$368,000 from \$627,000 in 2003. The effective income tax rate decreased to 30.3% from 31.4%. The decrease in the effective rate was primarily due to an increase in tax-exempt income from municipal securities.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The following table

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summarizes significant contractual obligations and other commitments at March 31, 2004 (in thousands):

| Years Ended December 31, | Time Deposits | Borrowings (1) | Junior (1) Subordinated Debt Owed to Unconsolidated | Total |
|--------------------------|------------------|-------------------|---|------------|
| | | | Trusts | |
| 2004 | \$ 122,595 | \$ 17,488 | | \$ 140,083 |
| 2005 | 116,733 | 14,723 | | 131,456 |
| 2006 | 10,284 | 8,342 | | 18,626 |
| 2007 | 9,158 | 450 | \$ 10,000 | 19,608 |
| 2008 and thereafter | 10,594 | 905 | | 11,499 |
| Total | \$ 269,364 | \$ 41,908 | \$ 10,000 | \$ 321,272 |

Financial instruments whose contract amounts represent credit risk:

| | |
|-------------------------------|-----------|
| Commitment to originate loans | \$ 14,454 |
| Commitments to extend credit | 46,135 |
| Standby letters of credit | 2,210 |
| Total | \$ 62,799 |

(1) Fixed rate callable borrowings are included in the period of their modified duration rather than in the period in which they are due. Borrowings include fixed rate callable advances of \$5.0 million maturing in 2008 and \$4.0 million maturing in 2011. Junior subordinated debt owed to unconsolidated trusts mature in 2032 but are callable in 2007.

The Company's most liquid assets are cash, cash in banks and highly liquid, short-term investments. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At March 31, 2004 and December 31, 2003, these liquid assets totaled \$19.6 million and \$45.6 million, respectively. Securities available-for-sale may also be utilized to meet liquidity needs. The level of liquid assets at December 31, 2003 was higher than usual due to a number of factors, including sales of loans and higher than expected prepayments on loans and investment securities.

Liquidity management for the Company is both a daily and long-term function of the Company's management strategy. Excess funds are generally invested in short-term investments such as federal funds. In the event that the Company should require funds beyond its ability to generate them internally, additional sources of funds are available, including FHLB advances. At March 31, 2004, the Company had outstanding borrowings totaling \$41.9 million, of which \$29.9 were advances from the FHLB, \$9.2 were funds from securities sold under agreement to repurchase, and \$2.8 million were funds from notes payable.

At March 31, 2004, the Company had outstanding commitments to originate mortgage loans of \$14.5 million, of which 88% were at fixed interest rates. These commitments provided that the loans would be secured by properties located, for the most part, in the Company's primary market areas. The Company anticipates that it will have sufficient funds available to meet its current loan commitments. Certificates of deposit that were scheduled to mature by December 31, 2004, totaled \$122.6 million. Based upon the historically stable nature of the Company's deposit base, management believes that a significant portion of such deposits will remain with the Company. The Company also had unused lines of credit provided to customers of \$46.1 million at March 31, 2004.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined by the regulations) to average assets (as defined) and Total and Tier I capital (as defined) to risk-weighted assets (as defined). Management believes, as of March 31, 2004, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of March 31, 2004, the most recent notification from the Bank's primary regulators, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

| | Actual | | For Capital Adequacy Purposes | | To be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|--------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (Dollars in Thousands) | | | | | | |
| As of March 31, 2004 | | | | | | |
| Tier 1 Capital to Average Assets | | | | | | |
| Centrue Financial | 40,905 | 6.86% | 23,855 | 4.00% | N/A | |
| Centrue Bank | 42,948 | 7.22% | 23,807 | 4.00% | 29,759 | 5.00% |
| Tier I Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 40,905 | 10.36% | 15,788 | 4.00% | N/A | |
| Centrue Bank | 42,948 | 10.91% | 15,740 | 4.00% | 23,610 | 6.00% |
| Total Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 45,839 | 11.61% | 31,576 | 8.00% | N/A | |
| Centrue Bank | 47,911 | 12.18% | 31,480 | 8.00% | 39,350 | 10.00% |
| As of December 31, 2003 | | | | | | |
| Tier 1 Capital to Average Assets | | | | | | |
| Centrue Financial | 41,893 | 7.26% | 23,090 | 4.00% | N/A | |
| Centrue Bank | 43,944 | 7.63% | 23,038 | 4.00% | 28,797 | 5.00% |
| Tier I Capital to Risk Weighted Assets | | | | | | |

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| | | | | | | |
|---------------------------------------|--------|--------|--------|-------|--------|--------|
| Centrue Financial | 41,893 | 9.90% | 16,925 | 4.00% | N/A | |
| Centrue Bank | 43,944 | 10.46% | 16,802 | 4.00% | 25,203 | 6.00% |
| Total Capital to Risk Weighted Assets | | | | | | |
| Centrue Financial | 47,173 | 11.14% | 33,850 | 8.00% | N/A | |
| Centrue Bank | 49,201 | 11.71% | 33,604 | 8.00% | 42,006 | 10.00% |

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SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ASSET/LIABILITY MANAGEMENT

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

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

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

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

The Funds Management Committee generally uses three types of analysis in measuring and reviewing the Company's interest rate sensitivity. These are Static GAP analysis, Dynamic Gap Analysis and Economic Value of Equity. The Static GAP analysis measures assets and liabilities as they reprice in various time periods and is discussed under the heading of Asset/Liability Management on page 17 of the 2003 Annual Report to Shareholders.

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

The following table presents the Bank's EVE ratios for the various rate change levels at March 31, 2004 and December 31, 2003:

| Changes in Interest Rates | EVE Ratios | |
|----------------------------------|-------------------------------|----------------------------------|
| | March 31, 2004 | December 31, 2003 |
| 300 basis point rise | 7.51% | 7.87% |
| 200 basis point rise | 7.51% | 7.94% |
| 100 basis point rise | 7.62% | 8.13% |
| Base rate scenario | 7.01% | 7.45% |
| 100 basis point decline | 5.57% | 6.08% |

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

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

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

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ITEM 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, Chief Financial Officer and Corporate Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2004. Based on that evaluation, the Company's management, including the Chief Executive Officer, Chief Financial Officer and Corporate Controller, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls.

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CENTRUE FINANCIAL CORPORATION

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

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

An Annual Meeting of Stockholders of the Company was held on April 23, 2004. At the meeting, stockholders voted to approve the election of Michael A. Griffith as a director of the Company. Michael J. Hejna will continue to serve as a director until 2005 and Thomas A. Daiber, Mark L. Smith and Wesley E. Walker will continue to serve as directors until 2006. An amendment to increase the number of shares in the Company's 2003 Stock Incentive Plan was approved. Stockholders also voted to approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2004.

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

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

NOMINEE: Michael A. Griffith

| | |
|------------|-----------------|
| FOR | WITHHELD |
| 2,105,906 | 246,137 |

2. To approve an amendment to Centrue Financial Corporation's 2003 Stock Incentive Plan.

| | | | |
|------------|----------------|----------------|-----------------------------|
| FOR | AGAINST | ABSTAIN | BROKER NON-VOTES |
| 1,302,230 | 231,925 | 118,288 | 699,600 |

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3. To approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2004.

| | FOR | AGAINST | ABSTAIN | BROKER NON-VOTES |
|---------------------------|------------|----------------|----------------|-----------------------------|
| | 2,224,858 | 26,240 | 100,945 | 0 |
| Item 5. Other Information | | | | |

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.3 Certification of Corporate Controller Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Corporate Controller Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K

On February 23, 2004, the Company filed a report on Form 8-K pursuant to Item 11 announcing a blackout period for executive officers and directors from March 22, 2004 to April 22, 2004 as a result of the merger of the assets of the Centrue Employee Stock Ownership Plan and the Centrue Bank 401(k) Savings Plan.

On March 12, 2004, the Company filed a report on Form 8-K pursuant to Item 5 announcing that the Company completed the merger with Parish Bank and Trust Company and pursuant to Item 12 disclosing its financial results for the quarter and year ended December 31, 2003.

On April 28, 2004, the Company filed a report on Form 8-K pursuant to Item 12 disclosing its financial results for the quarter ended March 31, 2004.

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CENTRUE FINANCIAL CORPORATION

SIGNATURES

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

CENTRUE FINANCIAL CORPORATION
Registrant

Date: May 12, 2004

/s/ THOMAS A. DAIBER

President and Chief Executive Officer

Date: May 12, 2004

/s/ JAMES M. LINDSTROM

Chief Financial Officer and
Senior Vice President

Date: May 12, 2004

/s/ JOHN A. BETTS

Vice President and
Corporate Controller