

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORP
Form 10-K
March 23, 2007

=====

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, 2006

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)

122 West Madison Street, Ottawa, Illinois 61350
(Address of principal executive offices, including zip code)

(815) 431-2720
(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 [X]

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 [X]

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 [X] 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X].

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

As of March 1, 2007, the Registrant had issued and outstanding 6,470,840 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, 2006, the last business day of the Registrant's most recently completed second quarter, was \$61,506,161.*

* Based on the last reported price of \$20.10 of an actual transaction in the Registrant's Common Stock on June 30, 2006, and reports of beneficial ownership filed by directors and executive officers of the Registrant and by beneficial owners of more than 5% of the outstanding shares of Common Stock of the Registrant. Shares of Common Stock held by any executive officer or director of the Registrant and any person who beneficially owns 5% or more of the outstanding Common Stock 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 2007 Annual Meeting of Stockholders (the "2007 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 the 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

Table with 2 columns: Item description and Page number. Includes items like Business (1), Risk Factors (11), Unresolved Staff Comments (15), Properties (15), and Legal Proceedings (16).

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Item 4. Submission of Matters to a Vote of Security Holders.....16

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities..... 16

Item 6. Selected Consolidated Financial Data..... 20

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 21

Item 7A. Quantitative and Qualitative Disclosures about Market Risk..... 47

Item 8. Financial Statements and Supplementary Data..... 47

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 91

Item 9A. Controls and Procedures.....91

Item 9B. Other Information.....91

PART III

Item 10. Directors, Executive Officers and Corporate Governance..... 91

Item 11. Executive Compensation..... 91

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters..... 91

Item 13. Certain Relationships and Related Transactions, and Director Independence.....92

Item 14. Principal Accountant Fees and Services.....92

Item 15. Exhibits and Financial Statement Schedules.....92

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 \$1.3 billion at year-end 2006 and is headquartered in Ottawa, Illinois. On November 13, 2006,

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

the Company (formerly known as UnionBancorp, Inc. now known as Centru Financial Corporation) merged with Centru Financial Corporation (former Centru), parent of Centru Bank with the Company being the surviving entity in the merger. Operating results of former Centru are included in the consolidated financial statements since the date of the acquisition. As a result of this merger, the Company expects to further solidify its market share in the northern and central Illinois markets, expand its customer base to enhance deposit fee income, provide an opportunity to market additional products and services to new customers and reduce operating costs through economies of scale.

The Company operates one wholly owned subsidiary: Centru Bank (the "Bank"), employing 398 full-time equivalent employees at December 31, 2006.

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, 2006, the Bank had \$1.3 billion in total assets, \$1.0 billion in total deposits, and 35 banking offices located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central and Northern 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

1.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

customers personal attention, professional service and competitive interest rates.

Under the Gramm-Leach-Bliley Act of 1999, effective March 2000, securities firms and insurance companies that elect to become financial holding companies may

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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 "DFPR"), 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.

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

2.

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 DFPR under the Illinois Bank Holding Company Act, as amended.

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

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.

The GLB Act specifies many activities that are financial in nature, including lending, exchanging, transferring, investing for others, or safeguarding money

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

or securities; underwriting and selling insurance; providing financial, investment or economic advisory services; underwriting, dealing in, or making a

3.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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.

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.

As of December 31, 2006, the Company had regulatory capital as follows:

Risk-Based

Leverage

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	Capital Ratio	Capital Ratio
	-----	-----
Company	11.9%	7.9%

The risk-based capital ratio and the leverage capital ratio are each 3.9% in excess of the Federal Reserve's minimum requirements. See Note 16 in the Notes in Consolidated Financial Statements for further information.

4.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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.

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

The SEC and the NASDAQ have adopted regulations and policies under the Sarbanes-Oxley Act of 2002 that will apply to Centrue Financial Corporation as a registered company under the Securities Exchange Act of 1934 and a NASDAQ-traded company. The stated goals of these Sarbanes-Oxley requirements are to increase corporate responsibility, 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 SEC and NASDAQ Sarbanes-Oxley-related regulations and policies include very specific additional disclosure requirements and new corporate governance rules.

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability in connection with recent 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 Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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. Recently, the SEC created a committee to evaluate Sarbanes-Oxley issues that may affect small public companies. Specifically being reviewed are the requirements under Sarbanes-Oxley section 404, which requires significant oversight of a public company's internal control over the financial statements. On December 15, 2006 the SEC issued a final rule to further extend the Sarbanes-Oxley Section 404 compliance dates for nonaccelerated filers. The final rule now requires nonaccelerated filers to provide management's report on internal control over financial reporting for the first fiscal year ending on or after December 15, 2007. The rule further extends the deadline for the external auditor's attestation report on internal control over financial reporting to be

5.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

required for the first year ending on or after December 15, 2008. The Company cannot accurately predict what additional expenses may be incurred in complying with the provisions of the Sarbanes-Oxley Act.

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 DFPR, 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 effective January 1, 2007 that create a new system of risk-based assessments, set assessment rates beginning January 1, 2007 and establish a new system of risk-based assessments. Under the new regulations, there are four risk categories, and each insured institution will be assigned to a risk category based on capital levels and supervisory ratings. Well-capitalized institutions with CAMELS composite ratings of 1 or 2 will be placed in Risk Category I while other institutions will be placed in Risk Categories II, III or IV depending on their capital levels and CAMEL composite ratings. The new regulations also established assessment rates beginning January 1, 2007, with the highest rated institutions, those in Risk Category I, paying premiums of between .05% and .07% of deposits and the lowest rated institutions, those in Risk Category IV, paying premiums of .43% of

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

deposits. 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. Deposit insurance assessments will be collected for a quarter, except for institutions with \$1 billion or more in assets, such as Centru 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.

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 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

6.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

aware of any activity or condition that could result in termination of the deposit insurance of Centru 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, 2006, the FICO assessment rate for both SAIF and BIF members ranged between approximately 0.0124% of deposits and approximately 0.0132% of deposits. During the year ended December 31, 2006, Centru Bank paid FICO assessments totaling \$66,333. For the first quarter of 2007, the rate established by the FDIC for the FICO assessment is 0.0122% of deposits.

Supervisory Assessments. All Illinois banks are required to pay supervisory assessments to the DFPR to fund the operations of the DFPR. The amount of the assessment is calculated based on the institution's total assets, including consolidated subsidiaries, as reported to the DFPR. During the year ended December 31, 2006, Centru Bank paid supervisory assessments to the DFPR totaling \$150,817.

Capital Requirements. The Federal Reserve has established the following minimum capital standards for state-chartered Federal Reserve System member banks, such as Centru 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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.

During the year ended December 31, 2006, 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, 2006, Centrue Bank as follows:

	Risk-Based Capital Ratio	Leverage Capital Ratio
	-----	-----
Centrue Bank	12.4%	8.3%

The risk-based capital ratio and the leverage capital ratio are 4.4% and 4.3% in excess of the Federal Reserve's minimum requirements. See Note 16 in the Notes in Consolidated Financial Statements for further information.

7.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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, 2006, 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.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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 \$1.95 million available to be paid as dividends to the Company as of December 31, 2006. 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.

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.

8.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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.

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.

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.

9.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

subsidiaries.

Reserve Requirement. Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows:

- o for the first \$8.5 million of net transaction accounts, there is no reserve;
- o for net transaction accounts totaling over \$8.5 million and up to and including \$45.8 million, a reserve of 3%; and
- o for net transaction accounts totaling in excess of \$45.8 million, a reserve requirement of \$1.119 million plus 10% against that portion of the total transaction accounts greater than \$45.8 million

The dollar amounts and percentages reported here are all subject to adjustment by the Federal Reserve. The effect of maintaining the required non-interest earning reserves is to reduce Centrue Bank's interest earning assets.

Wealth Management Division

Centrue Bank, through its wealth management division, conducts a full service trust business in the State of Illinois, pursuant to a certificate of authority issued to the Commissioner under the Illinois Corporate Fiduciaries Act (the "Fiduciaries Act"). The wealth management division is subject to periodic examination by the DFPR and the DFPR has the authority to take action against it to enforce compliance with the laws applicable to its operations.

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 2007 Proxy Statement, the names and ages of the executive officers of the Company as of December 31, 2006, 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, 49, is the President & Chief Executive Officer of Centrue Financial Corporation and Centrue Bank. Mr. Daiber joined the former Centrue Financial in October of 2003 as its President and Chief Executive Officer. Mr. Daiber had previously served as Chairman, President and Chief Executive Officer of Aviston Financial Corporation and Chairman and Chief Executive Officer of the State Bank of Aviston from October 2002 to October 2003. Mr. Daiber served as Allegiant Bancorp, Inc.'s Chief Financial Officer from May of 1999 until March of 2003. Mr. Daiber was employed by Allegiant Bancorp in St. Louis, Missouri beginning in March of 1997 and served as its Director of Internal Auditing prior to becoming Chief Financial Officer.

10.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

Kurt R. Stevenson, 40, is the Senior Executive Vice President, Chief Financial Officer and Chief Operating Officer of Centrue Financial Corporation and Centrue

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Bank. Mr. Stevenson had previously served as the Company's Senior Vice President and Chief Financial Officer since 2003. Prior to that, Mr. Stevenson served as the Company's Vice President and Chief Financial Officer since June of 2000. Before stepping into this role, he had been acting as the Company's Vice President and Controller since 1996 and had served in various operational capacities since joining the organization in 1987.

J. David Conterio, 44, joined the Company in January of 2005 as the Head of Financial Services of the former UnionFinancial Services & Trust Company, overseeing the trust, investment, asset management and the former insurance division of the Company. In 2006, Mr. Conterio was promoted to Executive Vice President of UnionBank and today continues to serve in that capacity, as well as its Head of Wealth Management. Prior to joining the Company, Mr. Conterio served as the President of Bekan Financial Corp in Schrererville, Indiana from August of 2003 until he joined the organization. He had previously served as the Senior Vice President of Great Lakes Trust Company in Blue Island, Illinois from August of 1998 through July of 2003.

Everett J. Solon, 54, is the Market President for the Company's Streator, Ottawa and Peru locations and was appointed the Company's Head of Mortgage in 2007. Before consolidating into one bank charter in 2003, Mr. Solon had served as the President and Chief Executive Officer of UnionBank since 1994. Mr. Solon joined Union National Bank in 1982 as the Assistant Vice President & Assistant Farm Manager and later served as the Vice President of Retail Banking before becoming the President of the Streator Banking Center in 1991.

Ricky R. Parks, 41, 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.

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."

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 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, 2006 approximately 69.7% 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 in increase in loan charge offs, all of which could have a material adverse effect on the Company's financial condition and results of operations. See Part II "Loans" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion of credit risks related to different loan types.

We are subject to economic conditions of our geographic market.

The Company's success depends to a large degree on the general economic conditions of the geographic markets served by the Bank in the State of Illinois 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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

12.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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, north west, east central, south central and St. Louis's suburban east counties of Illinois. 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.

Our allowance for loan losses may be insufficient.

Managing the Company's reserve 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 collectibility of the respective loan portfolios. Although the Company believes that the reserve for loan losses is adequate, there can be no assurance that such reserve 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 reserve 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.

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.

13.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

FORM 10-K

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:

- o Difficulty in estimating the value of the target company
- o 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
- o Potential exposure to unknown or contingent liabilities of the target company
- o Exposure to potential asset quality issues of the target company
- o There may be volatility in reported income as goodwill impairment losses could occur irregularly and in varying amounts
- o Difficulty and expense of integrating the operations and personnel of the target company
- o Inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits
- o Potential disruption to the Company's business
- o Potential diversion of the Company's management's time and attention
- o The possible loss of key employees and customers of the target company
- o Potential changes in banking or tax laws or regulations that may affect the target company

Details of the Company's recent acquisition activity is presented in Note 2, "Business Combinations," of the notes to consolidated financial statements within Part II, Item 8.

Our information systems may experience an interruption of 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.

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 Office of the Comptroller of the Currency, the IDFP and the SEC. The Company's success depends not only on competitive factors but also on state and federal regulations affecting banks and bank holding companies. The

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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 significantly affected by general business and economic conditions.

14.

CENTRUE FINANCIAL CORPORATION
 SECURITIES AND EXCHANGE COMMISSION
 FORM 10-K

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. A 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.

Item 2. Properties

At December 31, 2006, the Company operated thirty-seven offices in Illinois and one in Missouri. The principal offices of the Company are located in Ottawa, Illinois. 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 three offices that are leased: one is located in LaSalle County in Illinois, one in Will County in Illinois and one in St. Louis County in Missouri. The Company believes that its current facilities are adequate for its existing business.

AFFILIATE -----	MARKETS SERVED -----	PROPERTY/TYPE LOCATION -----
The Company		Administrative Office: Ottawa, IL
Centrue Bank	Bureau, Champaign, Clinton, DeKalb, Effingham, Grundy, Iroquois, Jo Daviess, Kane, Kankakee, Kendall, LaSalle, Livingston, St. Clair, Whiteside and Will Counties in Illinois and St. Louis County in Missouri	Main Office: Streator, IL Thirty-five banking offices and three non-banking offices located in markets served.

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

At December 31, 2006, the properties and equipment of the Company had an aggregate net book value of approximately \$35.4 million.

15.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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

On November 9, 2006, a proposal was submitted to security holders of UnionBancorp, Inc. and Centrue Financial Corporation to vote on the adoption of the Agreement and Plan of Merger dated June 30, 2006 between UnionBancorp, Inc. and Centrue Financial Corporation, and approve the transactions it contemplates, including the merger of Centrue Financial with UnionBancorp, and the adoption of an amended and restated certificate of incorporation. The results of the vote were as follows:

	For	Against	Abstain
UnionBancorp, Inc.	2,948,068	68,501	4,403
Centrue Financial Corp	1,621,947	99,524	4,008

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 1,154 stockholders of record as of March 1, 2007, 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.

16.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

Stock Sales

Cash

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	High -----	Low -----	Dividends -----
2006			
First Quarter.....	\$ 21.48	\$ 20.12	\$ 0.11
Second Quarter.....	21.12	19.44	0.12
Third Quarter.....	20.17	17.44	0.12
Fourth Quarter.....	20.00	18.30	0.12
2005			
First Quarter.....	\$ 21.50	\$ 20.75	\$ 0.10
Second Quarter.....	22.00	20.26	0.11
Third Quarter.....	21.98	20.84	0.11
Fourth Quarter.....	22.00	20.25	0.11

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 the acquisition of Prairie in 1996, preferential dividends were required to be paid or accrued quarterly, with respect to the outstanding shares of Preferred Stock. 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.

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 1996, the Company entered into a new loan agreement in connection with the acquisition of Prairie and Country, replacing the Company's prior loan agreement. The loan agreement contains no direct prohibitions against the payment by the Company of dividends, but indirectly restricts such dividends through the required maintenance of minimum capital ratios. 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.

The Company has not issued any securities in the past three years which were not registered for sale under the Securities Act of 1933, as amended.

17.

CENTRUE FINANCIAL CORPORATION
SECURITIES AND EXCHANGE COMMISSION
FORM 10-K

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, 2002 and ending on December 31, 2006. The graph was prepared at our request by SNL

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Financial LC, Charlottesville, Virginia.

COMPARISON OF CUMULATIVE TOTAL RETURN (ASSUMES \$100 INVESTED ON JANUARY 1, 2002)

[GRAPHIC CHART OMITTED]

Total Return Performance

Index	Period Ending					
	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Centrue Financial Corporation	100.00	111.57	163.43	161.98	165.68	155.00
SNL Midwest Bank	100.00	96.47	123.48	139.34	134.26	155.00
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.00

18.

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 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/06 -10/31/06	--	--	--	21
11/01/06 -11/30/06	2,000	19.61	2,000	36
12/01/06 -12/31/06	--	--	--	36
Total (1)	2,000	19.61	2,000	36

(1) The Company repurchased 2,000 shares of stock during the quarter ended

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

December 31, 2006 at an average price of \$19.61. The current repurchase program approved on November 13, 2006 provides for the repurchase by us of an additional 5% of the outstanding shares of our common stock. The expiration date of this program is May 13, 2008. Unless terminated earlier by resolution of our board of directors, the program will expire on the earlier of such expiration date or when we have repurchased all shares authorized for repurchase under the program.

19.

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, 2006:

	2006	2005	2004	
	-----	-----	-----	-----
Statement of Income Data				
Interest income	\$ 43,858	\$ 34,697	\$ 34,898	\$
Interest expense	21,351	13,704	13,231	
	-----	-----	-----	-----
Net interest income	22,507	20,993	21,667	
Provision for loan losses	(1,275)	250	1,924	
	-----	-----	-----	-----
Net interest income after provision for loan losses	23,782	20,743	19,743	
Noninterest income	6,688	6,298	12,378	
Noninterest expense	22,723	21,343	24,860	
	-----	-----	-----	-----
Income before income taxes	7,747	5,698	7,261	
Provision (benefit) for income taxes	2,145	1,319	2,173	
	-----	-----	-----	-----
Income from continuing operations (after taxes)	5,602	4,379	5,088	
Loss on discontinued operations	(415)	(206)	(285)	
	-----	-----	-----	-----
Net income	\$ 5,187	\$ 4,173	\$ 4,803	\$
Preferred stock dividends	207	207	207	
	-----	-----	-----	-----
Net income for common stockholders	\$ 4,980	\$ 3,966	\$ 4,596	\$
	=====	=====	=====	=====
Per Share Data				
Basic earnings per common shares from continuing operations	1.31	1.06	1.21	
Basic earnings per common share	\$ 1.21	\$ 1.01	\$ 1.14	\$
Diluted earnings per common share from continuing operations	1.30	1.04	1.19	
Diluted earnings per common share	1.20	0.99	1.12	
Dividends per common stock	0.48	0.44	0.40	
Dividend payout ratio for common stock	27.05%	43.39%	35.10%	
Book value per common stock	\$ 18.23	\$ 17.23	\$ 17.30	\$

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Basic weighted average common shares outstanding	4,119,235	3,943,741	4,033,608
Diluted weighted average common share outstanding	4,163,836	4,002,908	4,109,999
Period-end common shares outstanding	6,455,068	3,806,876	4,032,144
 Balance Sheet Data			
Securities	\$ 298,692	\$ 196,440	\$ 191,661
Loans	836,944	417,525	419,275
Allowance for loan losses	10,835	8,362	9,732
Total assets	1,283,025	676,222	669,546
Total deposits	1,026,610	543,841	512,477
Stockholders' equity	118,191	66,075	70,247
 Earnings Performance Data			
Return on average total assets	0.69%	0.63%	0.65%
Return on average stockholders' equity	6.69	6.06	7.06
Net interest margin ratio	3.41	3.56	3.34
Efficiency ratio (1)	76.81	77.78	82.90
 Asset Quality Ratios			
Nonperforming assets to total end of period assets	1.08%	0.62%	0.69%
Nonperforming loans to total end of period loans	1.40	0.96	1.00
Net loan charge-offs to total average loans	0.22	0.39	0.23
Allowance for loan losses to total loans	1.29	2.00	2.32
Allowance for loan losses to nonperforming loans	92.14	208.84	231.60
 Capital Ratios			
Average equity to average assets	10.35%	10.39%	9.27%
Total capital to risk adjusted assets	11.94	13.33	14.30
Tier 1 leverage ratio	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.

20.

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, 2006. 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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.

21.

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

Critical Accounting Policies and Estimates

Note 1 to our Consolidated Financial Statements for the year ended December 31, 2006 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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.

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

22.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

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.

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

value. This assessment is conducted as of December 31 of each year or more frequently if conditions warrant. Per the December 31, 2006 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.

Mortgage Servicing Rights: The Company recognizes as a separate asset the right 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. Annually, in November, the Company obtains a valuation from an independent appraiser as to the valuation of these rights. Estimating the fair value of the mortgage servicing rights involves judgment, particularly of estimating prepayment speeds of the underlying mortgages serviced. Net income could be affected if management's assumptions and estimated differ from actual prepayments.

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

23.

CENTRUE FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

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 is the holding company for Centrue Bank (the Bank). The Company is organized under the laws of the State of Delaware. The Company derives most of its revenues and income from the banking operations of its bank subsidiary, but also derives revenue from the Wealth Management Division of its bank subsidiary. The Company provides a full range of products and services to individual and corporate 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; mortgage banking; brokerage services; asset management; and trust services. The Company is subject to competition from other financial institutions, including banks, thrifts and credits unions, as well as nonfinancial institutions providing financial services. Additionally, the Company and 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

On November 13, 2006, the Company completed the merger with Centrue Financial Corporation, a single bank holding company, in a stock transaction valued at \$49,316. The transaction was accounted for under the purchase method of accounting, which provides for the establishment of goodwill equal to the excess of the purchase price over the fair value of the identifiable net assets. As a result, the Company recognized goodwill of \$19,086 and other intangible assets of \$13,035. The goodwill is not amortized but is subject to impairment tests on at least an annual basis. The other intangibles will be amortized over a weighted average life of 10 years. Only 49 days of the former Centrue Financial's results of operations are included in the Company's Consolidated Statements of Income. See Note 23 for additional information for this transaction.

The Company incurred approximately \$767 in pre-tax expenses during the fourth quarter of 2006 that were recorded as part of the merger and integration of the former Centrue Bank. Approximately \$216 of the total represented share-based compensation expense with the remainder representing direct costs and employee bonus payments, contract termination costs, marketing related advertising and promotional items, and accelerated depreciation expense for assets being phased out. The impact to earnings, net of taxes, was approximately \$0.11 per diluted share.

On September 29, 2006, the Company completed the sale of its insurance business line. In accordance with FASB Statement No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("FAS 144") the results of operations of the insurance division are reflected in the Company's statements of income as "discontinued operations." The loss on sale of the insurance unit of \$452 and related tax benefit of \$175 are included in discontinued operations as of December 31, 2006. The total impact to earnings for the discontinued operations for the insurance unit for 2006, net of taxes, was approximately \$0.10 per diluted share. Additionally, approximately \$1,030 of goodwill and intangibles attributed to the Insurance unit on the Company's balance sheet were written off as a result of this transaction and factored into the loss on the sale of the discontinued operations. See Note 22 for additional information for this transaction.

24.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

On March 31, 2006, the Company completed the sale of one retail branch office located in Mendota, Illinois, which had approximately \$6,100 in deposits.

Results of Operations

Net Income

2006 compared to 2005. Net income equaled \$5,187 or \$1.20 per diluted share for the year ended December 31, 2006 as compared to net income of \$4,173 or \$0.99 per diluted share for the year ended December 31, 2005. During the period, the Company reported a net loss of \$415 or \$0.10 per diluted share for discontinued operations related to the sale of the insurance line as compared to a net loss of \$206 or \$0.05 per diluted share for 2005.

Net income for continuing operations equaled \$5,602 or \$1.30 per diluted share as compared to net income of \$4,379 or \$1.04 per diluted share. This represents

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

a 24.3% increase in net income and a 21.2% increase in diluted per share earnings in the current fiscal year over fiscal 2005.

The Company's annual results for continuing operations were higher in 2006 versus 2005 due primarily due to several key issues. First, due to general improvement in asset quality, the Company decreased the provision for loan losses. Second, volume related increases in net interest income and other fee based revenue largely related to operating results from the Centrue merger being recorded for the last 49 days of the year. Finally, salaries and benefit costs were lower due to a reduction in force implemented in the fourth quarter of 2005. These were partially offset by increases in occupancy, furniture and equipment expenses related to operations for the last 49 days from the Centrue merger. In addition, performance for the full year of 2006 was negatively impacted by integration and related costs recorded in the fourth quarter specific to the Centrue merger.

Return on average assets was 0.69% for the year ended December 31, 2006 compared to 0.63% for the same period in 2005. Return on average stockholders' equity was 6.69% for the year ended December 31, 2006 compared to 6.06% for the same period in 2005.

2005 compared to 2004. Net income equaled \$4,173 or \$0.99 per diluted share for the year ended December 31, 2005 as compared to net income of \$4,803 or \$1.12 per diluted share for the year ended December 31, 2004. This represents a 13.1% decrease in net income and an 11.6% decrease in diluted per share earnings in the current fiscal year over fiscal 2004.

The Company's annual results were lower in 2005 versus 2004 due to the \$1,700 net gain on sale (after allocating a portion of the intangible assets and goodwill, taxes and applicable expenses) associated with the Company's divestiture of five western Illinois sales and service center locations recorded in the third quarter of 2004. Also contributing to the change were volume related decreases in net interest income and other fee based revenue largely related to the sale of the West region. Positively impacting earnings were decreases in the provision for loan losses due to continued improvement in asset quality levels and volume related decreases in noninterest expense categories due to the sale of the West region.

Return on average assets was 0.63% for the year ended December 31, 2005 compared to 0.65% for the same period in 2004. Return on average stockholders' equity was 6.06% for the year ended December 31, 2005 compared to 7.06% for the same period in 2004.

25.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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.

2006 compared to 2005. Net interest income, on a tax equivalent basis, was \$23,104 for the year ended December 31, 2006, compared with \$21,587 earned during the same period in 2005. This represented an increase of \$1,517 or 7.0%. The increase in net interest income is attributable to the year-over-year improvement in income earned on interest earning assets totaling \$9,156 exceeding the year-over-year increase of interest expense paid on interest bearing liabilities totaling \$7,645.

The \$9,156 increase in interest income resulted from improvements of \$4,066 related to volume and \$5,090 due to rates. The majority of the change in interest income was related to yield increases of 63 basis points in the loan portfolio and 89 basis points in the security portfolio. Also, contributing was the \$53,185 improvement in earning-assets largely related to the merger with Centruie in the fourth quarter.

The \$7,200 increase in interest expense resulted from increases of \$4,906 associated with rate and \$2,294 due to volume. The majority of the change was attributable to a 106 basis point increase in rates paid on total time deposits due to repricing of short-term instruments in a higher interest rate environment. Also contributing to the increase was higher expense caused by the addition of interest-bearing liabilities largely related to the merger with Centruie in the fourth quarter.

The net interest margin decreased 9 basis points to 3.47% for the year ended December 31, 2006 from 3.56% during the same period in 2005. The decrease resulted primarily from the result of an inverted yield curve and competitive pressures in pricing loans and deposits.

2005 compared to 2004. Net interest income, on a tax equivalent basis, was \$21,587 for the year ended December 31, 2005, compared with \$22,376 earned during the same period in 2004. This represented a decrease of \$789 or 3.5%. The decrease in net interest income is attributable to the year-over-year reduction of income earned on interest earning assets totaling \$328 combined with the year-over-year increase of interest expense paid on interest bearing liabilities totaling \$461.

The \$328 reduction in interest income resulted from a decrease of \$3,748 related to volume partially offset by \$3,420 improvement due to rates. The majority of the change in interest income was related to a decline in the average loan balance caused by the sale of the West region, as well as the loan portfolio declining due to normal paydowns, softening of loan demand, and exiting of high-balance, high-risk credits from portfolio. This loss in volume overcame a 44 basis point increase in yields earned on average loans.

The \$461 increase in interest expense resulted from an increase of \$2,055 associated with rate partially offset by a \$1,594 decrease due to volume. The majority of the change was attributable to a 34 basis point increase in rates paid on deposits due to the higher interest rate environment. This increase was slightly offset by the lower expense caused by a decline in average deposit balances related to the sale of the West region's branches.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

The net interest margin increased 22 basis points to 3.56% for the year ended December 31, 2005 from 3.34% during the same period in 2004. The increase resulted primarily from the result of the overall rising interest rate environment and a more disciplined approach to pricing.

The following table sets forth for each category of interest-earning assets and interest-bearing liabilities the average amounts outstanding, the interest earned or paid on such amounts, and the average rate paid during 2006, 2005 and 2004. The table also sets forth the average rate earned on all interest-earning assets, the average rate paid on all interest-bearing liabilities, and the net yield on average interest-earning assets for the same period. 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.

27.

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					
	2006			2005		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Interest-earning assets						
Interest-earning deposits	\$ 736	\$ 16	2.17%	\$ 147	\$ 7	4.6
Securities (1)						
Taxable	183,443	8,784	4.79	169,468	6,331	3.7
Nontaxable (2)	21,711	1,479	6.81	21,076	1,504	7.1
Total securities (tax equivalent)	205,154	10,263	5.00	190,544	7,835	4.1
Federal funds sold	6,846	363	5.30	3,785	115	3.2
Loans (3) (4)						
Commercial	120,328	8,958	7.44	117,571	8,131	6.9
Real estate	334,119	23,529	7.04	277,267	17,640	6.3
Installment and other	10,521	1,326	12.60	16,945	1,571	9.2
Gross loans (tax equivalent)	464,968	33,813	7.27	411,783	27,342	6.6
Total interest-						

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

earning assets	677,704	44,455	6.56	606,259	35,299	5.8

Noninterest-earning assets						
Cash and cash equivalents	18,818			18,874		
Premises and equipment, net	16,810			13,782		
Other assets	35,631			24,138		

Total non-interest-earning assets	71,259			56,794		

Total assets	\$748,963			\$663,053		
=====						
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
NOW accounts	\$ 74,328	\$ 1,313	1.77%	\$ 72,722	\$ 915	1.2
Money market accounts	62,778	1,876	2.99	59,160	1,080	1.8
Savings deposits	45,343	315	0.69	42,122	212	0.5
Time \$100,000 and over	209,030	8,865	4.11	148,238	4,522	3.0
Other time deposits	137,470	5,835	4.12	136,745	4,181	3.0
Federal funds purchased and repurchase agreements	9,947	407	4.09	6,243	197	3.1
Advances from FHLB	46,499	1,824	3.92	54,571	2,128	3.9
Notes payable and other	11,303	916	8.15	9,176	477	5.2

Total interest-bearing liabilities	596,698	21,351	3.50	528,977	13,712	2.5

Noninterest-bearing liabilities						
Non-interest-bearing deposits	68,650			61,040		
Other liabilities	6,104			4,133		

Total non-interest-bearing liabilities	74,754			65,173		

Stockholders' equity	77,511			68,903		

Total liabilities and stockholders' equity	\$748,963			\$663,053		
=====						
Net interest income (tax equivalent)		\$ 23,104			\$ 21,587	
=====						
Net interest income (tax equivalent) to total earning assets			3.47%			3.5
=====						
Interest-bearing liabilities to earning assets		88.05%			87.25%	
=====						

-
- (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,				
	2006 Compared to 2005			2005 Compared to 2004	
	Change Due to			Change Due to	
	Volume	Rate	Net	Volume	Rate
Interest income:					
Interest-earning deposits	\$ 14	\$ (5)	\$ 9	\$ --	\$ --
Investment securities:					
Taxable	552	1,901	2,453	(778)	--
Nontaxable	83	(108)	(25)	(310)	--
Federal funds sold	138	110	248	4	--
Loans	3,279	3,192	6,471	(2,664)	--
	-----	-----	-----	-----	-----
Total interest income	4,066	5,090	9,156	(3,748)	--
	-----	-----	-----	-----	-----
Interest expense:					
NOW accounts	21	377	398	99	--
Money market accounts	70	726	796	(524)	--
Savings deposits	17	86	103	(27)	--
Time, \$100,000 and over	2,022	2,223	4,245	(12)	--
Other time	21	1,733	1,754	(576)	--
Federal funds purchased and repurchase agreements	140	70	210	26	--
Advances from FHLB	(311)	6	(305)	(634)	--
AG & Comm Participations	--	--	--	--	--
Notes payable	129	315	444	54	--
	-----	-----	-----	-----	-----
Total interest expense	2,109	5,536	7,645	(1,594)	--
	-----	-----	-----	-----	-----

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Net interest income	\$ 1,957	\$ (446)	\$ 1,511	\$ (2,154)	\$
	=====	=====	=====	=====	=====

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

2006 compared to 2005. The 2006 provision for loan losses charged to operating expense totaled (\$1,275), a decrease of \$1,525 in comparison to the \$250 recorded during the same period for 2005. The decrease in the provision for loan losses was largely based on the pay-off of one \$4,400 loan relationship that was classified as impaired as of year-end 2005 with a specific reserve allocation of \$1,500. Also contributing to management's decision to make the

29.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

reverse provision were continued improvements in the quality of the loan portfolio, and favorable loan loss experience. Furthermore, this was positively impacted by loan resolutions, either through charge-off of nonbankable assets or through successful workout strategies that were executed throughout 2006. Net charge-offs for the year ended December 31, 2006 were \$1,020 compared with \$1,620 in the same period of 2005. Annualized net charge-offs decreased to 0.22% of average loans for 2006 compared to 0.39% in the same period in 2005.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

2005 compared to 2004. The 2005 provision for loan losses charged to operating expense totaled \$250, a decrease of \$1,674 in comparison to the \$1,924 recorded during the same period for 2004. The decrease in the provision for loan losses was due to the continued improvement in the management of the nonperforming and action/watch list loans from year-end 2004 to year-end 2005, including improved problem asset identification. Furthermore, this was positively impacted by loan resolutions, either through charge-off of nonbankable assets or through successful workout strategies that were executed throughout 2005. Net charge-offs for the year ended December 31, 2005 were \$1,620 compared with \$1,029 in the same period of 2004. Annualized net charge-offs increased to 0.39% of average loans for 2005 compared to 0.23% in the same period in 2004.

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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

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,	
		2006	2005
Service charges	\$	2,473	\$ 1,996
Merchant fee income		--	--
Trust income		858	811
Mortgage banking income		1,113	1,350
Brokerage commissions and fees		326	513
Bank owned life insurance (BOLI)		628	545
Securities gains (losses), net		(104)	(79)
Gain on sale of assets		(14)	4
Other income		1,408	1,158
Total noninterest income from continuing operations \$		6,688	\$ 6,298
Amounts reclassified to discontinued operations		--	1,304
Previously reported noninterest income levels		\$ 6,688	\$ 7,602

2006 compared to 2005. Noninterest income for continuing operations totaled \$6,688 for the year ended December 31, 2006, as compared to \$6,298 for the same timeframe in 2005. This represented an increase of \$390 or 6.2% in 2006 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 \$433 or 6.8%.

30.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

The increase reflected higher service charges and fees received on items drawn on customer accounts with insufficient funds (included in service charges), and variable-related improvement in electronic banking card-based fees. Also contributing to the change was the recognition of revenue generated from the Centrue merger for 49 days.

These improvements were partially offset by declines in revenue generated from the brokerage product line due to a change in the mix of products sold during the year and the mortgage banking division. The decrease in mortgage banking income, which includes gains generated from the sale of loans and net servicing revenue (after amortization of mortgage servicing rights), was due to a shortfall in the production of new mortgage loans originated. The remaining

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

categories remained relatively stable with only slight year-over-year changes.

2005 compared to 2004. Noninterest income totaled \$7,602 for the year ended December 31, 2005, as compared to \$14,102 for the same timeframe in 2004. This represented a decrease of \$6,500 or 46.1% in 2005 over the prior period. Excluding net securities gains and the gains on sale of branches and the Company's credit card portfolio, noninterest income shows a year-over-year decrease of \$2,039 or 21.0%.

Excluding net securities gains and gains on sale of the branches and the credit card portfolio, the decrease in noninterest income was related to a \$670 decline in mortgage banking income, an \$870 decrease in service charges and \$416 decline in insurance commissions. Decreases in service charges and other fee based revenue were largely due to volume associated with the sale of the West region's branches in 2004. The decrease in insurance commission fees was due to account retention issues and lower than anticipated new account production. The remaining categories remained relatively stable with only slight year-over-year changes.

Mortgage banking income, which includes gains generated from the sale of loans and net servicing revenue (after amortization of mortgage servicing rights), was lower in 2005 due to a decrease in mortgage origination volume slightly offset by an increase in revenue generated by the servicing rights portfolio due to the slowdown in refinancing activity.

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:

31.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

NONINTEREST EXPENSE (Dollars in Thousands)	Years Ended December 31,	
	2006	2005
Salaries and employee benefits	\$ 12,181	\$ 12,546
Occupancy expense, net	1,714	1,488
Furniture and equipment expenses	2,276	1,852
Marketing	697	491
Supplies and printing	421	343
Telephone	490	425
Other real estate expense	16	59
Amortization of intangible assets	416	120
Other expense	4,512	4,019
Total noninterest expense for continuing operations	\$ 22,723	\$ 21,343

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Amounts reclassified to discontinued operations	--	1,622	
	-----	-----	---
Previously reported noninterest expense levels	\$ 22,723	\$ 22,965	\$
	=====	=====	=====

2006 compared to 2005. Noninterest expense for continuing operations totaled \$22,723 for the year ended December 31, 2006, as compared to \$21,343 for the same timeframe in 2005. This represented an increase of \$1,380 or 6.5% in 2006 from 2005.

Adversely impacting expense levels was approximately \$767 in acquisition and integration costs related to accelerated share-based compensation, employee bonus and severance payments, contract termination costs, marketing related advertising and promotional items, and accelerated depreciation expense for assets being phased out. Also contributing to the increase were costs associated with the operation of 21 additional branches resulting from the Centruet merger. These increased costs were offset by \$1,608 in savings from salaries and employee benefits expense related to a reduction in force plan implemented during the fourth quarter of 2005 intended to realign expense levels with revenue levels. The remaining categories remained relatively stable with only slight year-over-year changes.

2005 compared to 2004. Noninterest expense totaled \$22,965 for the year ended December 31, 2005, as compared to \$26,981 for the same timeframe in 2004. This represented a decrease of \$4,016 or 14.9% in 2005 from 2004. Approximately 40% of the improvement in noninterest expense levels was due to \$1,621 in cost savings from salaries and employee benefits expense related to the sale of the West region's branches. Also contributing to the change were volume related decreases in occupancy expense of \$890, furniture and equipment of \$280 and other expense of \$798 related to the branch sales in 2004.

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:

32.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

	Years Ended December 31,		
	2006	2005	2004
Income from continuing operations before income taxes	\$ 7,747	\$ 5,698	\$ 7,1
Applicable income taxes	2,145	1,319	2,1
Effective tax rates	27.7%	23.2%	30

The Company recorded income tax expense of \$2,145 and \$1,319 for 2006 and 2005, respectively. Effective tax rates equaled 27.7% and 23.2% respectively, for such

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

periods. During the second quarter of 2005, the Company recorded a \$251 reduction in state income taxes due to the receipt of a tax refund related to amended tax returns outstanding from prior years. Excluding this refund, the effective tax rate for 2005 would have been 27.0%.

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 Illinois State tax. Second, the level of tax-exempt income has increased as a percentage of taxable income. Third, state income taxes were lower due to a refund from amended tax returns for prior years. Finally, the Company has reduced tax expense through various tax planning initiatives.

Preferred Stock Dividends. The Company paid \$207 of preferred stock dividends in 2006, 2005 and 2004.

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. The interest rates scenarios are used for analytical purposes and do not necessarily represent management's view of future market movements.

33.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS

(In Thousands, Except Share Data)

The tables below present the Company's projected changes in net interest income for 2006 and 2005 for the various rate shock levels.

December 31, 2006	Net Interest Income		
	Amount	Change	Change
	(Dollars in Thousands)		
+200 bp	\$ 42,539	\$ 2,215	5.49%
+100 bp	41,482	1,157	2.87
Base	40,325	--	--

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

-100 bp	38,795	(1,529)	(3.79)
-200 bp	35,980	(4,345)	(10.77)

Based on the Company's model at December 31, 2006, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by 5.49% or approximately \$2,215. The effect of an immediate 200 basis point decrease in rates would decrease the Company's net interest income by \$4,345 or 10.77%.

December 31, 2005 -----	Net Interest Income		
	Amount	Change	Change

	(Dollars in Thousands)		
+200 bp	\$ 23,043	\$ 959	4.34%
+100 bp	22,629	545	2.47
Base	22,084	--	--
-100 bp	21,314	(770)	(3.49)
-200 bp	19,744	(2,340)	(10.59)

Based on the Company's model at December 31, 2005, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by 4.34% or approximately \$959. The effect of an immediate 200 basis point decrease in rates would decrease the Company's net interest income by \$2,340 or 10.59%.

Financial Condition

Loans and Asset Quality. Total loans increased \$419,419 primarily due to loans acquired as part of the Centrue merger, which included \$47,716 of commercial, \$4,099 of agriculture, \$379,233 of real estate, and \$5,411 of installment loans. The largest impact on the overall loan portfolio mix due to the merger in relative percentage was an increase in 1-4 family loans from 13.9% to 27.1% of total loans.

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.

34.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

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

(Dollars in Thousands)
LOAN PORTFOLIO

Aggregate Principal Amount

December 31,			

2006	2005	2004	2003

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Commercial	\$ 154,829	\$ 91,537	\$ 91,941	\$ 105,767	\$
Agricultural	23,118	26,694	28,718	33,766	
Real estate:					
Commercial mortgages	274,909	126,503	129,597	134,985	
Construction	116,608	68,508	38,882	30,674	
Agricultural	27,624	33,033	30,601	37,092	
1-4 family mortgages	226,884	57,920	77,566	94,163	
Installment	11,998	12,747	21,502	37,415	
Other	974	583	468	2,950	
Total loans	836,944	417,525	419,275	476,812	
Allowance for loan losses	(10,835)	(8,362)	(9,732)	(9,011)	
Loans, net	\$ 826,109	\$ 409,163	\$ 409,543	\$ 467,801	\$

Aggregate Principal Amount

Percentage of Total Loan Portfolio

December 31,

	2006	2005	2004	2003
Commercial	18.50%	21.92%	21.93%	22.18%
Agricultural	2.76	6.39	6.85	7.08
Real estate:				
Commercial mortgages	32.85	30.31	30.91	28.31
Construction	13.93	16.41	9.27	6.43
Agricultural	3.30	7.91	7.30	7.78
1-4 family mortgages	27.11	13.87	18.50	19.75
Installment	1.43	3.05	5.13	7.85
Other loans	0.12	0.14	0.11	0.62
Gross loans	100.00%	100.00%	100.00%	100.00%

As of December 31, 2006 and 2005, commitments of Centrue Bank (and its predecessors) under standby letters of credit and unused lines of credit totaled approximately \$203,745 and \$87,510, respectively.

35.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

Stated loan maturities (including rate loans reset to market interest rates) of the total loan portfolio, net of unearned income, at December 31, 2006 were as follows:

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

STATED LOAN MATURITIES (1)
(Dollars in Thousands)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	-----	-----	-----	-----
Commercial	\$ 77,060	\$ 56,319	\$ 17,265	\$ 150,644
Agricultural	20,016	5,203	1,714	26,933
Real estate	123,611	210,420	312,547	646,578
Installment	2,802	9,473	514	12,789
	-----	-----	-----	-----
Total	\$ 223,489	\$ 281,415	\$ 332,040	\$ 836,944
	=====	=====	=====	=====

(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, 2006 were as follows:

LOAN REPRICING
(Dollars in Thousands)

	Within 1 Year	1 to 5 Years	After 5 Years	Total
	-----	-----	-----	-----
Fixed rate	\$ 57,010	\$ 188,743	\$ 138,527	\$ 384,280
Variable rate	310,947	122,630	7,328	440,905
Nonaccrual	9,831	1,241	687	11,759
	-----	-----	-----	-----
Total	\$ 377,788	\$ 312,614	\$ 146,542	\$ 836,944
	=====	=====	=====	=====

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. Amounts received on nonaccrual loans generally are 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. Loans which are 90 days delinquent but are well secured and in the process of collection are not included in nonperforming assets. Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

The classification of a loan as nonaccrual does not necessarily indicate that the principal is uncollectible, in whole or in part. Centrue Bank makes a determination as to collectibility on a case-by-case basis. Centrue Bank considers both the adequacy of the collateral and the other resources of the

36.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

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.

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 an ongoing 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,			
(Dollars in Thousands)		2006	2005	2004	2003
		-----	-----	-----	-----
Nonaccrual loans	\$	11,759	\$ 3,082	\$ 3,649	\$ 8,149
Loans 90 days past due and still accruing interest		--	922	553	328
		-----	-----	-----	-----
Total nonperforming loans		11,759	4,004	4,202	8,477
Other real estate owned		2,136	203	420	227
		-----	-----	-----	-----
Total nonperforming assets	\$	13,895	\$ 4,207	\$ 4,622	\$ 8,704
		=====	=====	=====	=====
Nonperforming loans to total loans		1.40%	0.96%	1.00%	1.78%
Nonperforming assets to total loans		1.66	1.01	1.10	1.83
Nonperforming assets to total assets		1.08	0.62	0.69	1.10

The level of nonperforming loans at December 31, 2006 increased to \$11,759 versus the \$4,004 that existed as of December 31, 2005. The increase of \$7,755 was largely related to \$10,230 that was added to nonaccrual loans as part of the Centrue merger and offset by a decrease of \$2,475 related to resolutions of

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

nonbankable loans or through successful workout strategies executed throughout 2006. The level of nonperforming loans to total end of period loans was 1.40% at December 31, 2006, as compared to 0.96% at December 31, 2005. The reserve coverage ratio (allowance to nonperforming loans) was reported at 92.14% as of December 31, 2006 as compared to 208.84% as of December 31, 2005.

Other Potential Problem Loans. The Company has other potential problem loans that are currently performing and do not meet the criteria for impairment, but where some concern exists. Excluding nonperforming loans and loans that management has classified as impaired, these other potential problem loans totaled \$1,757 at December 31, 2006 as compared to \$2,879 at December 31, 2005. The classification of these loans, however, does not imply that management expects losses on each of these loans. Rather, management believes that a higher level of scrutiny and close 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.

37.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS

(In Thousands, Except Share Data)

The following table sets forth a summary of other real estate owned and other collateral acquired at December 31, 2006:

OTHER REAL ESTATE OWNED
(Dollars in Thousands)

	Number of Parcels	Net Book Carrying Value
	-----	-----
Developed property	11	\$ 1,980
Vacant land or unsold lots	2	156
	-----	-----
Total other real estate owned	13	\$ 2,136
	=====	=====

Allowance for Loan Losses. In conjunction with the Centrue merger, the Company acquired \$436,459 in net 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.

At December 31, 2006, the allowance for loan losses was \$10,835 or 1.29% of total loans as compared to \$8,362 or 2.00% at December 31, 2005. The Company recorded a negative provision of (\$1,275) to the allowance for loan losses largely based on the pay-off of one \$4,400 loan relationship that was classified as impaired as of year-end with a specific reserve allocation of \$1,500. Also

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

contributing to management's decision to make the reverse provision were continued improvements in the quality of the loan portfolio and favorable loan loss experience.

In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things: 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. In making this determination, the Company analyzes the ultimate collectibility of the loans in its portfolio, feedback provided by internal loan staff, the independent loan review function, and information provided by examinations performed by regulatory agencies. The Company makes an ongoing evaluation as to the adequacy of the allowance for loan losses.

On a quarterly basis, management reviews the adequacy of the allowance for loan losses. Commercial credits are graded 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. The grading system is in compliance with the regulatory classifications and the allowance is allocated to the loans based on the regulatory grading, except in instances where there are known differences (i.e., collateral value is nominal, etc.). 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: (i) specific credit allocation established for

38.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

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 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 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

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

element of the allowance for loan losses also includes consideration of the amounts necessary for concentrations and changes in portfolio mix and volume.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed quarterly, 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, and there were no reallocations.

Management remains watchful of credit quality issues. Should the economic climate deteriorate from current levels, borrowers may experience difficulty, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision.

39.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

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

	December 31,			
	2006	2005	2004	2003
Beginning balance	\$ 8,362	\$ 9,732	\$ 9,011	\$ 6,450
Charge-offs:				
Commercial	552	342	1,497	4,791
Real estate mortgages	1,044	1,611	389	626
Installment and other loans	88	367	578	812
Total charge-offs	1,684	2,320	2,464	6,229
Recoveries:				
Commercial	223	394	1,021	415
Real estate mortgages	357	208	230	46
Installment and other loans	85	98	184	93
Total recoveries	665	700	1,435	554
Net charge-offs	1,019	1,620	1,029	5,675
Provision for loan losses	(1,275)	250	1,924	8,236
Reduction due to sale of loans	--	--	174	--
Increase due to merger	4,767	--	--	--
Ending balance	\$ 10,835	\$ 8,362	\$ 9,732	\$ 9,011

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Period end total loans	\$ 836,944	\$ 417,525	\$ 419,275	\$ 476,812
Average loans	\$ 464,968	\$ 411,783	\$ 447,605	\$ 482,343
Ratio of net charge-offs to average loans	0.22%	0.39%	0.23%	1.18%
Ratio of provision for loan losses to average loans	(0.27)	0.06	0.43	1.71
Ratio of allowance for loan losses to ending total loans	1.29	2.00	2.32	1.89
Ratio of allowance for loan losses to total nonperforming loans	92.14	208.84	231.60	106.30
Ratio of allowance at end of period to average loans	2.33	2.03	2.17	1.87

40.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

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,						
	2006		2005		2004		2003
	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount	Loan Category to Gross Loans	Amount
Commercial	\$ 4,888	21.84%	\$ 7,386	28.32%	\$ 6,035	28.78%	\$ 4,935
Real estate	5,668	76.61	773	68.49	3,311	65.98	2,846
Installment and other loans	279	1.55	203	3.19	386	5.24	593
Unallocated	--	--	--	--	--	--	637
Total	\$10,835	100.00%	\$ 8,362	100.00%	\$ 9,732	100.00%	\$ 9,011

Securities Activities. The Company's consolidated securities portfolio, which represented 28.7% of the Company's average earning asset base as of December 31, 2006, as compared to 31.4% as of December 31, 2005, is managed to minimize interest rate risk, maintain sufficient liquidity, and maximize return. The portfolio includes several callable agency debentures, adjustable rate

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

mortgage pass-throughs, and collateralized mortgage obligations. Corporate bonds consist of investment grade obligations of public corporations. Equity securities consist of Federal Reserve stock, Federal Home Loan Bank stock, and trust preferred stock. 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 \$298,692 at December 31, 2006 compared to \$196,440 at December 31, 2005 primarily resulting from \$125,756 in securities added as a result of the Centrue merger. The Company does not have any securities classified as trading or held-to-maturity.

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

SECURITIES PORTFOLIO (Dollars in Thousands)					
December 31,					
	2006		2005		2004
	Amount	% of Portfolio	Amount	% of Portfolio	Amount
Available-for-Sale					
U.S. government agencies	126,039	42.21	30,858	15.71	20,924
U.S. government agency mortgage backed securities	69,579	23.29	101,022	51.43	117,500
States and political subdivisions	41,471	13.88	18,400	9.37	24,647
Collateralized mortgage obligations	27,237	9.12	20,937	10.66	2,486
Corporate bonds	8,764	2.93	6,907	3.52	8,239
Other securities	25,602	8.57	18,316	9.32	17,865
	-----	-----	-----	-----	-----
Total	\$ 298,692	100.00%	\$ 196,440	100.00%	\$ 191,661
	=====	=====	=====	=====	=====

The following table sets forth the contractual, callable or estimated maturities and yields of the debt securities portfolio as of December 31, 2006. Mortgage backed and collateralized mortgage obligation securities are included at estimated maturity.

41.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

MATURITY SCHEDULE
(Dollars in Thousands)

	Maturing							
	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Ye	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Y
Available-for-Sale								
U.S. government agencies and corporations	\$ 19,220	4.770%	\$103,709	5.011%	\$ 3,110	6.000%	\$ --	
U.S. government agency mortgage backed securities	--	--	2,913	5.434	7,602	5.040	59,064	5
States and political subdivisions (1)	3,724	6.126	24,918	5.736	8,983	6.338	3,846	5
Collateralized mortgage obligations	59	4.241	--	--	--	--	27,178	5
Corporate bonds	6,030	5.778	2,734	4.980	--	--	--	
Total	\$ 29,033		\$134,274		\$ 19,695		\$ 90,088	

(1) Rates on obligations of states and political subdivisions have been adjusted to tax equivalent yields using a 34% income tax rate

Deposit Activities. Deposits are attracted through the offering of a broad variety of deposit instruments, including checking accounts, money market accounts, regular savings accounts, term certificate accounts (including "jumbo" certificates in denominations of \$100,000 or more), and retirement savings plans. The Company's average balance of total deposits was \$597,599 for 2006, representing an increase of \$77,572 or 13.0% compared with the average balance of total deposits for 2005 primarily resulting from \$523,630 in deposits added as a result of the Centrue merger.

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

	AVERAGE DEPOSITS (Dollars in Thousands)						
	For the Years Ended December 31,						
	2006			2005			
Average Amount	% of Total	Average Rate Paid	Average Amount	% of Total	Average Rate Paid	Average Amount	
Non-interest-bearing demand deposits	\$ 68,650	11.49%	--%	\$ 61,040	11.74%	--%	\$ 71,912
Savings accounts	45,343	7.59	0.69	42,122	8.10	0.50	47,337
Interest-bearing demand deposits	137,106	22.94	2.33	131,882	25.36	1.51	151,961

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Time, less than \$100,000	137,470	23.00	4.12	136,745	26.30	3.06	156,198
Time, \$100,000 or more	209,030	34.98	4.11	148,238	28.50	3.05	148,701
	-----	-----	-----	-----	-----	-----	-----
Total deposits	\$597,599	100.00%	2.97%	\$520,027	100.00%	2.10%	\$576,109
	=====	=====	=====	=====	=====	=====	=====

As of December 31, 2006, average time deposits over \$100,000 represented 34.98% of total average deposits, compared with 28.5% of total average deposits as of December 31, 2005. The Company's large denomination time deposits are generally from customers within the local market areas of its subsidiary bank and provide a greater degree of stability than is typically associated with brokered deposit customers with limited business relationships.

42.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS
(In Thousands, Except Share Data)

The following table sets forth the remaining maturities for time deposits of \$100,000 or more at December 31, 2006:

TIME DEPOSITS OF \$100,000 OR MORE
(Dollars in Thousands)

Maturity Range

Three months or less	\$ 120,744
Over three months through six months	37,826
Over six months through twelve months	22,081
Over twelve months	50,750

Total	\$ 231,401
	=====

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

RETURN ON EQUITY AND ASSETS

	For the Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Return on average assets	0.69%	0.63%	0.65%
Return on average equity	6.69	6.06	7.06
Average equity to average assets	10.35	10.39	9.27
Dividend payout ratio for common stock	27.05	43.39	36.42

Liquidity

The Company manages its liquidity position with the objective of maintaining sufficient funds to respond to the needs of depositors and borrowers and to take advantage of earnings enhancement opportunities. In addition to the normal inflow of funds from core-deposit growth together with repayments and maturities

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

of loans and investments, the Company utilizes other short-term funding sources such as brokered time deposits, securities sold under agreements to repurchase, overnight federal funds purchased from correspondent banks and the acceptance of short-term deposits from public entities, and Federal Home Loan Bank advances.

The Company monitors and manages its liquidity position on several bases, which vary depending upon the time period. As the time period is expanded, other data is factored in, including estimated loan funding requirements, estimated loan payoffs, investment portfolio maturities or calls, and anticipated depository buildups or runoffs.

The Company classifies all of its securities as available-for-sale, thereby maintaining significant liquidity. The Company's liquidity position is further enhanced by structuring its loan portfolio interest payments as monthly and by the significant representation of retail credit and residential mortgage loans in the Company's loan portfolio, resulting in a steady stream of loan repayments. In managing its investment portfolio, the Company provides for staggered maturities so that cash flows are provided as such investments mature.

43.

CENTRUE FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

The Company's cash flows are comprised of three classifications: cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Cash flows provided by operating activities and investing activities offset by cash flows used in financing activities resulted in a net increase in cash and cash equivalents of \$15,837 from December 31, 2005 to December 31, 2006.

During 2006, the Company experienced net cash inflows of \$53,963 in investing activities primarily due to proceeds from maturities, paydowns, and sales of securities and cash acquired in merger and \$7,411 from operating activities largely due to net income and proceeds from net loans sales and net income. In contrast, net cash outflows of \$45,500 were used in financing activities due to decreases in deposits and advances from the Federal Home Loan Bank.

Centrue Bank's securities portfolio, federal funds sold, and cash and due from bank deposit balances serve as the primary sources of liquidity for the Company. At December 31, 2006, 25.68% of Centrue Bank's interest-bearing liabilities were in the form of time deposits of \$100,000 and over. Management believes these deposits to be a stable source of funds. However, if a large number of these time deposits matured at approximately the same time and were not renewed, Centrue Bank's liquidity could be adversely affected. Currently, the maturities of Centrue Bank's large time deposits are spread throughout the year, with 52.2% maturing in the first quarter of 2007, 16.4% maturing in the second quarter of 2007, 9.5% maturing in the third and fourth quarters of 2007, and the remaining 21.9% maturing thereafter. Centrue Bank monitors those maturities in an effort to minimize any adverse effect on liquidity.

The Company's borrowings included trust preferred securities and notes payable at December 31, 2006 in the principal amount of \$10,000 each for Kankakee Capital Trust and Centrue Statutory Trust, \$7,850 payable to the Company's principal correspondent bank, shareholder note for \$1,200 related to the purchase of Parrish Bank and \$149 payable to individuals related to the purchase of the Howard Marshall Agency. The note to the Company's principal correspondent bank is renewable annually, requires quarterly interest payments, and is

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

collateralized by the Company's stock in the Bank. The note related to the purchase of the Howard Marshall Agency requires monthly principal and interest payments. The shareholder note requires bi-annual payments of \$500 at an imputed interest rate.

The Company's principal source of funds for repayment of the indebtedness is dividends from Centrue Bank. At December 31, 2006, approximately \$1,946 was available for dividends without regulatory approval.

Contractual Obligations

The Company has entered into contractual obligations and commitments and off-balance sheet financial instruments. The following tables summarize the Company's contractual cash obligations and other commitments and off-balance sheet instruments as of December 31, 2006:

44.

CENTRUE FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
OPERATIONS

(In Thousands, Except Share Data)

	Payments Due by Period			
	Within 1 Year	1-3 Years	4-5 Years	5 A
Contractual Obligations				5
Short-term debt	\$ 7,850	\$ --	\$ --	\$
Long-term debt	--	149	--	
Certificates of deposit	432,188	123,474	15,255	
Operating leases	429	891	949	
Severance payments	97	--	--	
Series B Mandatory redeemable preferred stock	--	831	--	
Subordinated Debentures	--	--	--	
FHLB Advances	31,530	18,352	8,200	
Total contractual cash obligations	\$ 472,094	\$ 143,697	\$ 24,404	\$
	=====	=====	=====	=====

Commitments, Contingencies, and Off-Balance Sheet Financial Instruments

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, often including obtaining collateral at exercise of the commitment. At December 31, 2006, the Company had \$192,808 in outstanding loan commitments including outstanding commitments for various lines of credit. The Company also has \$10,937 of standby letters of credit as of

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

December 31, 2006. See Note 18 of the Notes to the Consolidated Financial Statements for additional information on loan commitments and standby letters of credit.

Capital Resources

Stockholders' Equity

The Company is committed to managing capital for maximum shareholder benefit and maintaining strong protection for depositors and creditors. Stockholders' equity at December 31, 2006 was \$118,191, an increase of \$52,116 or 78.9%, from December 31, 2005. The increase in stockholders' equity was largely the result of the issuance of common stock related to the Centrue merger and net income for the period partially offset by dividends paid to shareholders. These increases were partially offset by cash outlays of common stock and preferred stock dividends, and purchase of treasury stock. Average equity as a percentage of average assets was 10.35% at December 31, 2006, compared to 10.39% at December 31, 2005. Book value per common share equaled \$18.23 at December 31, 2006, an increase from \$17.23 reported at the end of 2005.

Stock Repurchase Programs

Following the closing of the Centrue merger, the Company's board voted to terminate the former UnionBancorp, Inc. stock repurchase plan. In its place, the Company adopted a new stock repurchase plan, providing for the repurchase of up to 5%, or approximately 370,000 shares, of the combined company's common stock outstanding over the next 18 months in the open market or in privately negotiated transactions.

45.

CENTRUE FINANCIAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands, Except Share Data)

Capital Measurements

Centrue Bank is expected to meet a minimum risk-based capital to risk-weighted assets ratio of 8%, of which at least one-half (or 4%) must be in the form of Tier 1 (core) capital. The remaining one-half (or 4%) may be in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowance that may be included in capital is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Company was 10.8% and 11.9%, respectively, at December 31, 2006. The decline in the respective capital ratios was primarily due to an increase in goodwill and other intangible assets in connection with the Centrue merger. The Company is currently, and expects to continue to be, in compliance with these guidelines.

As of December 31, 2006, the Tier 2 risk-based capital was comprised of \$10,835 in allowance for loan losses (limited to 1.25% of risk-weighted assets). The Series A Preferred Stock is convertible into common stock, subject to certain adjustments intended to offset the amount of losses incurred by the Company upon the post-closing sale of certain securities acquired in conjunction with the 1996 acquisition of Prairie.

The following table sets forth an analysis of the Company's capital ratios:

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

RISK-BASED CAPITAL RATIOS (Dollars in Thousands)

	December 31,		
	2006	2005	2004
Tier 1 risk-based capital	\$ 99,869	\$ 60,546	\$ 63,347
Tier 2 risk-based capital	10,835	6,266	6,067
Total capital	110,704	66,812	69,414
Risk-weighted assets	926,874	501,342	485,325
Capital ratios			
Tier 1 risk-based capital	10.8%	12.1%	13.0%
Tier 2 risk-based capital	11.9	13.3	14.3
Leverage ratio	7.9	9.0	9.5

Impact of Inflation, Changing Prices, and Monetary Policies

The financial statements and related financial data concerning the Company have been prepared in accordance with accounting principles generally accepted in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant effect on the performance of a financial institution than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Interest rates are highly sensitive to many factors which are beyond the control of the Company, including the influence of domestic and foreign economic conditions and the monetary and fiscal policies of the United States government and federal agencies, particularly the FRB.

46.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The discussion under the caption "Interest Rate Sensitivity Management" contained in Item 7 of this Form 10-K is incorporated herein by this reference.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

Report of Independent Registered Public Accounting Firm.....	48
Consolidated Balance Sheets (December 31, 2006 and 2005)	49
Consolidated Statements of Income (For the years ended December 31, 2006, 2005 and 2004).....	50
Consolidated Statements of Stockholders' Equity (For the years ended December 31, 2006, 2005 and 2004).....	52
Consolidated Statements of Cash Flows	

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

(For the years ended December 31, 2006, 2005 and 2004).....54

Notes56

Supplementary Data

The Supplementary Financial Information required to be included in this Item 8 is hereby incorporated by reference by Note 24 to the Notes to Consolidated Financial Statements contained herein.

47.

[GRAPHIC OMITTED]
Crowe (TM)

Crowe Chizek and Company LLC
Member Horwath International

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Centrue Financial Corporation
Ottawa, Illinois

We have audited the accompanying balance sheets of Centrue Financial Corporation as of December 31, 2006 and 2005, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centrue Financial Corporation at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Oak Brook, Illinois
March 19, 2007

48.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005 (In Thousands, Except Share and Per Share Data)

	2006	2005

ASSETS		
Cash and cash equivalents	\$ 40,195	\$ 24,358
Securities available-for-sale	298,692	196,440
Loans	836,944	417,525
Allowance for loan losses	(10,835)	(8,362)
	-----	-----
Net loans	826,109	409,163
Cash value of life insurance	25,904	15,498
Mortgage servicing rights	3,510	2,533
Premises and equipment, net	35,403	13,908
Goodwill	25,396	6,963
Intangible assets, net	12,733	533
Other real estate	2,136	203
Other assets	12,947	6,623
	-----	-----
Total assets	\$ 1,283,025	\$ 676,222
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	\$ 125,585	\$ 57,832
Interest-bearing	901,025	486,009
	-----	-----
Total deposits	1,026,610	543,841
Securities sold under agreements to repurchase	36,319	612
Federal Home Loan Bank advances	63,147	50,000
Notes payable	9,015	9,468
Series B mandatory redeemable preferred stock	831	831
Subordinated debentures	20,620	--
Other liabilities	8,292	5,395
	-----	-----
Total liabilities	1,164,834	610,147
Stockholders' equity		
Preferred stock		
Series A Convertible Preferred Stock (aggregate liquidation preference of 2,762)	500	500
Common stock, \$1 par value, 15,000,000 shares authorized; 7,412,210 and 4,684,393 shares issued in 2006 and 2005	7,412	4,684
Surplus	70,460	23,167
Retained earnings	52,469	48,837
Accumulated other comprehensive income	235	95
	-----	-----
Total stockholders' equity	131,076	77,283
Treasury stock, at cost, 957,142 shares - 2006 and 877,517 shares - 2005	(12,885)	(11,208)
	-----	-----
Total stockholders' equity	118,191	66,075

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Total liabilities and stockholders' equity	\$ 1,283,025	\$ 676,222
	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

(Continued)

49.

CENTRUE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006, 2005, and 2004 (In Thousands, Except Per Share Data)

	2006	2005	2004

Interest income			
Loans	\$ 33,717	\$ 27,251	\$ 27,718
Securities			
Taxable	8,785	6,331	5,925
Exempt from federal income taxes	976	993	1,221
Federal funds sold and other	380	122	34
	-----	-----	-----
Total interest income	43,858	34,697	34,898
Interest expense			
Deposits	18,204	10,910	9,909
Federal funds purchased and securities sold under agreements to repurchase	407	197	98
Advances from the Federal Home Loan Bank	1,824	2,128	2,887
Series B Mandatory Redeemable preferred stock	50	50	50
Subordinated debentures	242	--	--
Notes payable and other	624	419	287
	-----	-----	-----
Total interest expense	21,351	13,704	13,231
Net interest income	22,507	20,993	21,667
Provision for loan losses	(1,275)	250	1,924
	-----	-----	-----
Net interest income after provision for loan losses	23,782	20,743	19,743
Noninterest income			
Service charges	2,473	1,996	2,866
Trust income	858	811	740
Mortgage banking income	1,113	1,350	2,020
Brokerage commissions and fees	326	513	525
Bank Owned Life Insurance (BOLI)	628	545	573
Securities (losses) gains, net	(104)	(79)	123
Gain on sale of other assets	(14)	4	4,263
Other income	1,408	1,158	1,268
	-----	-----	-----
Total noninterest income	6,688	6,298	12,378
Noninterest expenses			
Salaries and employee benefits	12,181	12,546	13,841
Occupancy, net	1,714	1,488	2,333
Furniture and equipment	2,276	1,852	2,103

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Marketing	697	491	604
Supplies and printing	421	343	422
Telephone	490	425	523
Other real estate owned	16	59	8
Amortization of intangible assets	416	120	241
Other expenses	4,512	4,019	4,785
	-----	-----	-----
	22,723	21,343	24,860
	-----	-----	-----
Income from continuing operations before income taxes	7,747	5,698	7,261
Income taxes	2,145	1,319	2,173
	-----	-----	-----
Income from continuing operations	\$ 5,602	\$ 4,379	\$ 5,088

See Accompanying Notes to Consolidated Financial Statements.

(Continued)

50.

CENTRUE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2006, 2005, and 2004 (In Thousands, Except Per Share Data)

	2006	2005	2004

Discontinued operations:			
Loss from operations of discontinued insurance unit (including loss on disposal of \$452 in 2006)	(677)	(326)	(402)
Income tax benefit	(262)	(120)	(117)
	-----	-----	-----
Loss on discontinued operations	(415)	(206)	(285)
	-----	-----	-----
Net income	5,187	4,173	4,803
Preferred stock dividends	207	207	207
	-----	-----	-----
Net income for common stockholders	\$ 4,980	\$ 3,966	\$ 4,596
	=====	=====	=====
Basic earnings per common share from continuing operations	\$ 1.31	\$ 1.06	\$ 1.21
Basic earnings per common share from discontinued operations	(0.10)	(0.05)	(0.07)
	-----	-----	-----
Basic earnings per common share	\$ 1.21	\$ 1.01	\$ 1.14
	=====	=====	=====
Diluted earnings per common share from continuing operations	\$ 1.30	\$ 1.04	\$ 1.19
Diluted earnings per common share from discontinued operations	(0.10)	(0.05)	(0.07)
	-----	-----	-----
Diluted earnings per common share	\$ 1.20	\$ 0.99	\$ 1.12
	=====	=====	=====
Dividends per common share	\$ 0.48	\$ 0.44	\$ 0.40
	=====	=====	=====

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

See Accompanying Notes to Consolidated Financial Statements.

(Continued)

53.

CENTRUE FINANCIAL CORPORATION
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 Years Ended December 31, 2006, 2005, and 2004 (In Thousands, Except Share Data)

	Series A Convertible Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Un- Com- U S O P
	-----	-----	-----	-----	-----	-----
Balance, January 1, 2004	500	4,628	22,484	43,609	2,141	
Common stock dividends	--	--	--	(1,613)	--	
Preferred stock dividends	--	--	--	(207)	--	
Exercise of stock options (13,294 shares)	--	13	148	--	--	
Amortization of un- earned compensation under stock option plans	--	--	--	--	--	
Purchase of 8,000 shares of treasury stock	--	--	--	--	--	
Comprehensive income						
Net income	--	--	--	4,803	--	
Net decrease in fair value- of securities classified as available-for-sale, net of income taxes and reclassi- fication adjustments	--	--	--	--	(790)	
Total comprehensive income	-----	-----	-----	-----	-----	-----
Balance, December 31, 2004	\$ 500	\$ 4,641	\$ 22,632	\$ 46,592	\$ 1,351	\$
Common stock dividends	--	--	--	(1,721)	--	
Preferred stock dividends	--	--	--	(207)	--	
Exercise of stock options (43,486 shares)	--	43	535	--	--	
Purchase of 268,754 shares of treasury stock	--	--	--	--	--	
Comprehensive income						
Net income	--	--	--	4,173	--	
Net decrease in fair value- of securities classified as available-for-sale, net of income taxes and reclassi- fication adjustments	--	--	--	--	(1,256)	

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Total comprehensive income	-----	-----	-----	-----	-----	-----
Balance, December 31, 2005	\$ 500	\$ 4,684	\$ 23,167	\$ 48,837	\$ 95	\$
	=====	=====	=====	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

52.

CENTRUE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2006, 2005, and 2004 (In Thousands, Except Share Data)

	Series A Convertible Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Tr S
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2005	\$ 500	\$ 4,684	\$ 23,167	\$ 48,837	\$ 95	\$ (1
Common stock dividends	--	--	--	(1,348)	--	
Preferred stock dividends	--	--	--	(207)	--	
Exercise of stock options (27,300 shares)	--	27	329	--	--	
Issuance of 2,700,517 shares of common stock related to merger	--	2,701	46,611	--	--	
Stock-based compensation	--	--	353	--	--	
Purchase of 79,625 shares of treasury stock	--	--	--	--	--	(
Comprehensive income						
Net income	--	--	--	5,187	--	
Net decrease in fair value- of securities classified as available-for-sale, net of income taxes and reclassi- fication adjustments	--	--	--	--	140	
Total comprehensive income	-----	-----	-----	-----	-----	-----
Balance, December 31, 2006	\$ 500	\$ 7,412	\$ 70,460	\$ 52,469	\$ 235	\$ (1
	=====	=====	=====	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

53.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2006, 2005, and 2004 (In Thousands)

	2006	2005

Cash flows from operating activities		
Net income	\$ 5,187	\$ 4,173
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,149	1,839
Amortization of intangible assets	457	170
Amortization of mortgage servicing rights	473	535
Amortization of unearned compensation under stock option plans	--	--
Amortization of bond premiums, net	165	1,114
Stock option expense	353	--
Federal Home Loan Bank stock dividend	--	(191)
Provision for loan losses	(1,275)	250
Provision for deferred income taxes	2,460	30
Net change in BOLI	(637)	(545)
Net change in OREO	--	(655)
Securities losses/(gains), net	104	79
Gain on sale of assets, net	(14)	(4)
Gain (loss) on sale of real estate acquired in settlement of loans	(68)	(42)
Gain on sale of loans	(762)	(1,034)
Proceeds from sale of loans held for sale	49,039	51,838
Origination of loans held for sale	(47,855)	(50,378)
Change in assets and liabilities		
(Increase) decrease in other assets	(5,365)	(679)
Increase (decrease) in other liabilities	2,963	2,235
	-----	-----
Net cash provided by operating activities	7,374	8,735
Cash flows from investing activities		
Securities available for sale		
Proceeds from maturities and paydowns	39,380	56,414
Proceeds from sales	19,377	10,885
Purchases	(38,908)	(74,972)
Redemption of FHLB stock	1,730	--
Purchase of loans	(19,513)	(3,275)
Net decrease (increase) in loans	32,371	2,730
Purchase of premises and equipment	(2,761)	(2,979)
Proceeds from sale of real estate acquired in settlement of loans	979	914
Cash acquired, net of cash (paid) for acquisitions	26,506	--
Sale of insurance unit	856	--
Sale of branches, net of premium received	(6,054)	--
	-----	-----
Net cash provided by (used in) investing activities	53,963	(10,283)

See Accompanying Notes to Consolidated Financial Statements.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005, 2004, and 2003 (In Thousands)

	2006	2005	

Cash flows from financing activities			
Net increase (decrease) in deposits	\$ (34,853)	\$ 31,364	\$
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	7,202	(12,110)	
Net increase (decrease) in advances from the Federal Home Loan Bank	(13,504)	(11,900)	
Payments on notes payable	(2,869)	(2,586)	
Proceeds from notes payable	1,400	5,425	
Dividends on common stock	(1,348)	(1,721)	
Dividends on preferred stock	(207)	(207)	
Proceeds from exercise of stock options	356	578	
Purchase of treasury stock	(1,677)	(5,739)	
	-----	-----	-----
Net cash provided by (used in) financing activities	(45,500)	3,104	
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	15,837	1,556	
Cash and cash equivalents			
Beginning of year	24,358	22,802	
	-----	-----	-----
End of year	\$ 40,195	\$ 24,358	\$
	=====	=====	=====
Supplemental disclosures of cash flow information			
Cash payments for			
Interest	\$ 21,932	\$ 12,980	\$
Income taxes	1,386	862	
Transfers from loans to other real estate owned	2,743	675	
Business Combinations (see Note 23)			

See Accompanying Notes to Consolidated Financial Statements.

55.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Centrue Financial Corporation (the "Company") is a bank holding company organized under the laws of the State of Delaware. During the 4th quarter of 2006, the former UnionBancorp completed its merger with Centrue Financial Corporation. Immediately following the merger, UnionBancorp changed its name to Centrue Financial Corporation. The Company provides a full range of banking services to individual and corporate customers located in markets extending from the far western and southern suburbs of the Chicago metropolitan area across Central and Northern Illinois down to the metropolitan St. Louis area. These services include demand, time, and savings deposits; lending; mortgage banking,

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

brokerage, asset management, and trust services. The Company is subject to competition from other financial institutions and nonfinancial institutions providing financial services. Additionally, the Company and its subsidiary Centrue Bank are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Basis of presentation

The consolidated financial statements include the accounts of the Company and Centrue Bank. Intercompany balances and transactions have been eliminated in consolidation.

The accompanying financial statements have been prepared in conformity with U. S. generally accepted accounting principles and with general practice in the banking industry. In preparing the financial statements, management makes estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period, and actual results could differ. The allowance for loan losses, value of mortgage servicing rights, deferred taxes, and fair values of financial instruments are particularly subject to change.

Assets held in an agency or fiduciary capacity, other than trust cash on deposit with Centrue Bank, are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

Cash flows

Cash and cash equivalents includes cash, deposits with other financial institutions under 90 days, and federal funds sold. Loan disbursements and collections, repurchase agreements, federal funds purchased, Federal Home Loan Bank advances, bank owned life insurance and transactions in deposit accounts are reported, net.

Securities

Securities classified as available-for-sale are those securities 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 deferred income tax effect, reported in other comprehensive income. Securities such as Federal Home Loan Bank stock and Federal Reserve Bank stock are carried at cost. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized

(Continued)

56.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

(Continued)

losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Interest income is reported net of amortization of premiums and accretion of discounts. Gains or losses from the sale of securities are determined using the specific identification method. Securities are written down to fair value when a decline in fair value is not temporary.

Loan commitments and related financial instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer and credit card loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the cost allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes and confirms the loan balance to be uncollectible. Subsequent recoveries, if any, are credited to the allowance. Management estimates the

(Continued)

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies
(Continued)

allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

Mortgage servicing rights

Servicing assets represent purchased rights and the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates and then, secondarily, to prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping.

Premises and equipment

Land is carried at cost. Premises and equipment are stated at cost less

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

accumulated depreciation. Building and related components are depreciated using the straight-line method with useful lives ranging from 15 to 39 years. Furniture, fixtures, and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 10 years. The cost of maintenance and repairs is charged to income as incurred; significant improvements are capitalized.

(Continued)

58.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Foreclosed assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Bank-owned life insurance

The Company has invested in bank-owned life insurance policies, for which the Company is also the beneficiary, on certain members of management. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be realized. These policies have an approximate cash surrender value of \$25,907 and \$15,498 at December 31, 2006 and 2005, respectively.

Goodwill and other intangible assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank, and branch company acquisitions. They are initially measured at fair value and then are amortized over their estimated useful lives, which is ten years.

Long-term assets

Premises and equipment, core deposit, and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Repurchase agreements

Substantially all repurchase agreement liabilities represent amounts advanced by

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Income taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax laws. Changes in enacted tax rates and laws are reflected in the financial statements in the periods they occur.

(Continued)

59.

CENTRUE FINANCIAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Earnings per share

Basic earnings per share is based on weighted-average common shares outstanding. Diluted earnings per share assumes the issuance of any dilutive potential common shares under stock options and Series A convertible preferred shares using the treasury stock method.

Stock Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-based Payment, using the modified prospective transition method. Accordingly, the Company has recorded stock-based employee compensation cost using the fair value method starting in 2006. For 2006, adopting this standard resulted in a reduction of income before income taxes of \$353, a reduction in net income of \$216, a decrease in basic and diluted earnings per share of \$0.52 and \$0.52.

Prior to January 1, 2006, employee compensation expense under stock options was reported using the intrinsic value method; therefore, no stock-based compensation cost is reflected in net income for 2005 and 2004, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, for 2005 and 2004. The Black-Scholes option pricing model was used to estimate the grant date fair value of option grants.

	2005	2004
Net income as reported for common stockholders	\$ 3,966	\$ 4,596
Deduct: Stock-based compensation expense determined under fair value based method	106	96

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Pro forma net income	\$ 3,860	\$ 4,500
	=====	=====
Basic earnings per share as reported	\$ 1.01	\$ 1.14
Pro forma basic earnings per share	0.98	1.12
Diluted earnings per share as reported	0.99	1.12
Pro forma diluted earnings per share	0.96	1.09

(Continued)

60.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies
 (Continued)

Stockholders' Equity:

Preferred stock

The Company's Certificate of Incorporation authorizes its Board of Directors to fix or alter the rights, preferences, privileges, and restrictions of 200,000 shares of preferred stock.

The Company has the following classes of preferred stock issued or authorized:

Series A Convertible Preferred Stock: The Company has authorized 2,765 shares of Series A Convertible Preferred Stock. There were 2,762.24 shares of Series A Convertible Preferred Stock issued at December 31, 2006 and 2005. Preferential cumulative cash dividends are payable quarterly at an annual rate of \$75.00 per share. Dividends accrue on each share of Series A Preferred Stock from the date of issuance and from day to day thereafter, whether or not earned or declared. The shares of Series A Preferred Stock are convertible into 172,042 common shares. Series A Preferred Stock is not redeemable for cash. Upon dissolution, winding up, or liquidation of the Company, voluntary or otherwise, holders of Series A Preferred Stock will be entitled to receive, out of the assets of the Company available for distribution to stockholders, the amount of \$1,000 per share, plus any accrued but unpaid dividends, before any payment or distribution may be made on shares of common stock or any other securities issued by the Company that rank junior to the Series A Preferred Stock.

Series B Mandatory Redeemable Preferred Stock: The Company has authorized 1,092 shares of Series B Mandatory Redeemable Preferred Stock. There were 831 shares of Series B Mandatory Redeemable Preferred Stock issued at December 31, 2006 and 2005 which are shown in other liabilities in accordance with FASB 150. Preferential cumulative cash dividends are payable quarterly at an annual rate of \$60.00 per share. Dividends accrue on each share of Series B Preferred Stock from the date of issuance and from day to day, thereafter, whether or not earned or declared. Each original holder of Series B Preferred Stock (or upon such holder's death, their executor or personal representatives) will have the option, exercisable at their sole discretion, to sell, and the Company will be obligated to redeem such holder's shares of Series B Preferred Stock upon

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

the earlier to occur of the death of the respective original holder of Series B Preferred Stock or August 6, 2006. The per share price payable by the Company for such shares of Series B Preferred Stock will be equal to \$1,000 per share, plus any accrued but unpaid dividends. Upon dissolution, wind up, or liquidation of the Company, voluntary or otherwise, holders of Series B Preferred Stock will be entitled to receive, out of the assets of the Company available for distribution to stockholders, the amount of \$1,000 per share, plus any accrued but unpaid dividends, before any payment or distribution may be made on shares of common stock or any other securities issued by the Company that rank junior to the Series B Preferred Stock.

Series C Junior Participating Preferred Stock: The Company has authorized 4,500 shares of Series C Junior Participating Preferred Stock. There were no shares issued at December 31, 2006 and 2005. Effective with the adoption of the restated articles of incorporation submitted in November, 2006, the Series C Preferred Stock ceased to exist.

(Continued)

61.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Dividend restriction

Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends that may be paid by the subsidiary bank to the holding company or by the holding company to stockholders.

Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income elements, including the change in unrealized gains and losses on securities

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

available-for-sale, net of tax.

Operating segments

Internal financial information is primarily reported and aggregated in the following lines of business: banking, mortgage banking, financial services, and other. The merger between the Company and the former Centrue Financial Corporation (see Note 23) became effective on November, 13, 2006 and as such, the results for the former Centrue Bank are presented as a stand alone segment since its operations were not yet integrated at year end 2006. Comparable discrete financial information is not available for the acquired entity on the same reporting basis as the Company (e.g. the former UnionBancorp, Inc.).

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

Adoption of new accounting standards

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-based Payment. See "Stock Compensation" above for further discussion of the effect of adopting this standard.

(Continued)

62

CENTRUE FINANCIAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, beginning with year end 2006, and to recognize changes in the funded status in the year in which the changes occur through comprehensive income beginning in 2007. Additionally, defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008. Adoption of this statement was not material to the consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. The amount so recorded is shown as a cumulative effect adjustment is recorded in opening retained earnings as of January 1, 2006. The adoption of SAB 108 had no effect on the Company's financial statements for the year ending December 31, 2006.

In February 2006, the FASB issued Statement No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment to FASB Statements No. 133 and 140. This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard is effective for financial assets acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Adoption of this statement on January 1, 2007 did not have a material impact on the Company's consolidated financial position or results of operations.

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140. This Statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation

(Continued)

63.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. This standard is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. Adoption of this statement on January 1, 2007 did not have a material impact on the Company's consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of this statement

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

on January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance). This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policy holder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 31, 2006. Adoption of this issue on January 1, 2007 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company has not completed its evaluation of the impact of adoption of EITF 06-4.

(Continued)

64.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 2. Business Acquisitions and Divestitures

On May 3, 2004, the Company sold the deposits and premises of a UnionBank/West branch location. At the date of the sale, the branch had approximately \$12,535 in deposits, \$1,720 of loans, and \$336 in fixed assets. The sale price was \$440.

On September 10, 2004, the Company completed the sale of five branch offices located in western Illinois. Per the terms of the agreement announced on May 24, 2004, First Bankers Trust Company of Quincy, Illinois acquired the physical assets, \$88,600 in deposits, and \$40,226 of the net loan portfolio of Centrue Bank's Quincy, Macomb, Paloma, Carthage and Rushville, Illinois offices. This transaction effectively exited the Bank from the western Illinois marketplace. The sales price was approximately \$4,400. The Company also allocated \$679 of goodwill to the sale of these branches as well as amortized the remaining core deposit intangible assigned to the deposits sold of \$192.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

On October 20, 2004, the Company completed the merger of UnionFinancial Services & Trust Company into the Bank. UnionFinancial was a stand-alone financial services company that offers a full line of insurance, brokerage trust and asset management services.

On March 31, 2006, the Company completed its sale of the Mendota sales and service center to First State Bank in Mendota. At the date of the sale, the branch had approximately \$6,066 in deposits.

On September 30, 2006, the Company completed its sale of its Insurance Product line to the Phoenix Group. The sale price was \$1,100. The Company recorded a net loss of \$452. See Note 22 for further information.

On November 13, 2006, the Company merged with the Centrue Financial Corporation. UnionBancorp, Inc. was the acquirer and adopted the Centrue Financial Corporation name. See Note 23 for further information.

Note 3. Securities

The fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Fair Value	Gross Unrealized Gains	G Unr L
	-----	-----	---
Available-for-sale			
December 31, 2006			
U.S. government agencies	\$ 126,039	\$ 308	\$
States and political subdivisions	41,471	329	
U.S. government agency mortgage-backed securities	69,579	253	
Collateralized mortgage obligations	27,237	44	
Equity securities	25,602	171	
Corporate	8,764	16	
	-----	-----	---
	\$ 298,692	\$ 1,121	\$
	=====	=====	===

(Continued)

65.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

	Fair Value	Gross Unrealized Gains	G Unr L
	-----	-----	---
Available-for-sale			

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

December 31, 2005

U.S. government agencies	\$ 30,857	\$ 8	\$
States and political subdivisions	18,400	424	
U.S. government agency mortgage-backed securities	101,022	854	
Collateralized mortgage obligations	20,938	21	
Equity securities	18,316	54	
Corporate	6,907	62	
	-----	-----	-----
	\$ 196,440	\$ 1,423	\$
	=====	=====	=====

Approximately 33% at December 31, 2006 and 35% at December 31, 2005 of the fair value of equity securities consists of Federal Home Loan Bank stock and Federal Reserve Bank stock.

Sales of securities available-for-sale were as follows:

	Years Ended December 31,		
	2006	2005	
Proceeds	\$ 19,377	\$ 10,885	\$
Realized gains	19	24	
Realized losses	(123)	(103)	

The fair value of securities classified as available-for-sale at December 31, 2006, by contractual maturity, are shown below. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations, and equity securities are shown separately.

Fair Value

Due in one year or less		\$
Due after one year through five years		
Due after five years through ten years		
Due after ten years		
U.S. government agency mortgage-backed securities		
Collateralized mortgage obligations		
Equity securities		

		\$
		=====

The Company held callable securities with carrying value of \$133,638 and an amortized cost basis of \$133,188 as of December 31, 2006 and with a carrying value of \$47,091 and an amortized cost basis of \$47,097 at December 31, 2005.

Securities with carrying values of approximately \$214,605 and \$132,000 at December 31, 2006 and 2005, respectively, were pledged to secure public deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law. At year end 2006 and 2005, there were no holdings of securities of any one issuer, other than the U.S. Government agencies in an amount greater than 10% of stockholders' equity.

(Continued)

66.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 3. Securities (continued)

Securities with unrealized losses at year-end 2006 not recognized in income are as follows:

Description of Securities	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. government agencies	\$ 41,240	\$ (37)	\$ 19,684	\$ (208)
State and political subdivisions	3,444	(2)	460	(7)
U.S. government agency mortgage-backed securities	17,009	(88)	24,018	(305)
Collateralized mortgage Obligations	3,228	(36)	8,042	(41)
Corporate	1,000	--	1,785	(13)
Total temporarily impaired	\$ 65,921	\$ (163)	\$ 53,989	\$ (574)

Securities with unrealized losses at year-end 2005 not recognized in income are as follows:

Description of Securities	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. government agencies	\$ 21,445	\$ (260)	\$ 5,876	\$ (104)
State and political subdivisions	611	(5)	462	(11)
U.S. government agency mortgage-backed securities	36,194	(429)	13,929	(246)
Collateralized mortgage Obligations	15,383	(157)	48	--
Equity securities	1,030	(7)	--	--
Corporate	1,822	(7)	3,708	(42)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Total temporarily impaired	\$ 76,485	\$ (865)	\$ 24,023	\$ (403)
	=====	=====	=====	=====

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. The unrealized losses on all securities have not been recognized into income because the securities are of high credit quality and management has the intent and ability to hold for the foreseeable future and the decline in fair value is largely due to increases in market interest rates.

(Continued)

67.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

 Note 4. Loans

The major classifications of loans follow:

	December 31,	
	2006	2005
	-----	-----
Commercial	\$ 177,947	\$
Commercial real estate	406,403	
Real estate	234,772	
Real estate loans held for sale	4,850	
Installment	11,998	
Other	974	
	-----	-----
	\$ 836,944	\$
	=====	=====

An analysis of activity in the allowance for loan losses follows:

	Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Balance at beginning of year	\$ 8,362	\$ 9,732	\$

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Acquired in merger	4,767	--	
Provision (credit) for loan losses	(1,275)	250	
Reduction due to sale of loans	--	--	
Recoveries	665	700	
Loans charged off	(1,684)	(2,320)	
	-----	-----	
Balance at end of year	\$ 10,835	\$ 8,362	\$
	=====	=====	=====

The following table presents data on impaired loans:

	December 31,		
	2006	2005	
	-----	-----	-----
Year-end impaired loans for which an allowance has been provided	\$ 4,915	\$ 12,585	\$
Year-end impaired loans for which no allowance has been provided	16,450	563	
	-----	-----	
Total impaired loans	\$ 21,365	\$ 13,148	\$
	=====	=====	=====
Allowance for loan loss allocated to impaired loans	\$ 1,562	\$ 3,913	\$
Average recorded investment in impaired loans	14,514	14,839	
Interest income recognized from impaired loans	1,781	1,189	
Cash basis interest income recognized from impaired loans	225	177	

In November, the Company completed its merger with the former Centrue Financial Corporation. As part of this merger, the Company's loan portfolio increased by \$436,460 and the allowance for loan losses increased \$4,768. Within the loans acquired were nonaccrual loans of \$10,230. The increase in impaired loans with no allocated allowance is a direct result of the loans acquired in the merger being recorded upon acquisition at their fair value.

(Continued)

68.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

 Note 4. Loans (Continued)

Nonperforming loans were as follows:

December 31,	
2006	2005
-----	-----

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Loans past due over 90 days still on accrual	\$	--	\$	922
Nonaccrual loans		11,759		3,082

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The Company and its subsidiary conducts most of their business activities, including granting agribusiness, commercial, residential, and installment loans, with customers located in north central, east, central, south central, suburban east in St. Louis metro area, suburban west in Chicago metro area and northwest Illinois.

Loans made to executive officers, directors, and their affiliates during 2006 were as follows:

Balance at December 31, 2005	\$	22,544
Additions due to merger		434
New loans, extensions, and modification		1,496
Repayments		(1,236)
Effect of changes in composition of related parties		(16,186)
Balance at December 31, 2006	\$	7,052
		=====

Note 5. Loan Servicing

Loans held for sale at year end are as follows:

	December 31,	
	2006	2005
	-----	-----
Loans held for sale	\$ 4,850	\$ 1,316
Less: Allowance to adjust to lower of cost or market	--	--
Loans held for sale, net	\$ 4,850	\$ 1,316
	=====	=====

The following summarizes the secondary mortgage market activities:

	Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Proceeds from sales of mortgage loans	\$ 49,039	\$ 51,838	\$ 86,828
	=====	=====	=====
Gain on sales of mortgage loans	\$ 762	\$ 1,034	\$ 1,877
	=====	=====	=====

(Continued)

69.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of these loans are summarized as follows:

	December 31,	
	2006	2005
	-----	-----
Federal Home Loan Mortgage Corporation	\$ 137,737	\$ 1,706
Federal National Mortgage Association	258,552	289,974
Small Business Administration	856	1,333
IHDA	1,866	2,202
Other	9,653	7,027
	-----	-----
	\$ 408,664	\$ 302,242
	=====	=====

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$2,543 and \$1,348 at December 31, 2006 and 2005, respectively.

Following is an analysis of the changes in originated mortgage servicing rights:

	Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Balance at beginning of year	\$ 2,533	\$ 2,772	\$ 2,775
Acquired in merger	1,300	--	--
Originated mortgage servicing rights	150	296	719
Amortization	(473)	(535)	(722)
	-----	-----	-----
Balance at end of year	\$ 3,510	\$ 2,533	\$ 2,772
	=====	=====	=====

In November, 2006, the Company merged with the former Centrue Financial Corporation. As part of this merger, the Company recorded \$1,300 of mortgage servicing rights at the fair market value on the date of the merger and added \$139,167 of loan balances to its servicing portfolio.

Management periodically evaluates assets for impairment. For purposes of measuring impairment, servicing assets are stratified by loan type. An impairment is recognized if the carrying value of servicing assets exceeds the

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

fair value of the stratum. The fair value of capitalized mortgage servicing rights was \$3,700 and \$2,500 at December 31, 2006 and 2005, respectively. Fair value was determined using discount rates ranging from 9.77% to 10.27%, prepayment speeds ranging from 15.35% to 16.22%, depending on the stratification of the specific right.

Estimated amortization expense for each of the next five years:

2007	\$	475
2008		475
2009		450
2010		450
2011		400

(Continued)

70.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 6. Premises and Equipment

Premises and equipment consisted of:

	December 31	
	2006	
	\$	\$
Land	10,258	
Buildings	23,349	
Furniture and equipment	20,480	
Construction in process	1,504	
	55,591	
Less accumulated depreciation	20,188	
	\$ 35,403	\$

Note 7. Goodwill and Intangible Assets

Goodwill

Goodwill initially recorded is subject to the completion of the valuation of assets acquired and liabilities assumed. Purchase accounting adjustments are the adjustments to the initial goodwill recorded at the time an acquisition is completed. Such adjustments generally consist of adjustments to the assigned fair value of assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations and adjustments to initial estimates recorded for transaction costs or exit liabilities. Goodwill is not amortized but is subject to impairment tests on at least an annual basis. The Company's annual goodwill impairment test determined no impairment existed at that date.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

The change in balance of goodwill during the year is as follows:

	2006	
Beginning of year	\$ 6,963	\$
Goodwill from merger	19,086	
Goodwill allocated to Insurance division sale	(653)	
End of year	\$ 25,396	\$

Acquired Intangible Assets

Acquired intangible assets were as follows as of year end:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	\$ 14,124	\$ 1,433	\$ 1,089	\$
Other customer relationship intangibles	60	18	749	
Total	\$ 14,184	\$ 1,451	\$ 1,838	\$

(Continued)

71.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 7. Goodwill and Intangible Assets (continued)

The core deposit intangible asset recorded in the merger with Centru Financial Corporation was \$13,035. Aggregate amortization expense was \$457, \$170, and \$280 for 2006, 2005, and 2004.

Estimated amortization expense for subsequent years:

2007	\$ 2,308
2008	1,887
2009	1,544
2010	1,263
2011	1,034
Thereafter	4,694

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Note 8. Deposits

Deposit account balances by type are summarized as follows:

	December 31,	
	2006	2005
Non-interest-bearing demand deposits	\$ 125,585	\$ 57,832
Savings, NOW, and money market accounts	329,385	175,004
Time deposits of \$100 or more	231,401	162,328
Other time deposits	340,238	148,677
	-----	-----
	\$1,026,610	\$ 543,841
	=====	=====

At December 31, 2006, the scheduled maturities of time deposits are as follows:

Year	Amount
----	-----
2007	\$ 432,188
2008	92,715
2009	30,759
2010	11,904
2011	3,351
Thereafter	723

	\$ 571,640
	=====

Time certificates of deposit in denominations of \$100 or more mature as follows:

	December 31,	
	2006	2005
3 months or less	\$ 120,744	\$ 60,256
Over 3 months through 6 months	37,826	30,823
Over 6 months through 12 months	22,081	36,871
Over 12 months	50,750	34,378
	-----	-----
	\$ 231,401	\$ 162,328
	=====	=====

Deposits from principal officers, directors and their affiliates at year end 2006 and 2005 were \$1,134 and \$3,100.

(Continued)

72.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 9 - Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are financing arrangements that

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

mature within two years. At maturity, the securities underlying the agreements are returned to the Company. Securities sold under agreements to repurchase are secured by mortgage-backed securities with a carrying value of \$36,319 and \$12,497 at year-end 2006 and 2005. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2006	2005
Average daily balance during the year	\$ 6,679	\$ 3,903
Average interest rate during the year	4.61%	3.04%
Maximum month-end balance during the year	\$ 36,319	\$ 12,497
Weighted average interest rate at year-end	4.70%	3.06%

Note 10 - Subordinated Debentures

As part of the merger, the Company acquired two trust preferred issuances. These were issued for \$10,000 each in April 2002 and April 2004 in cumulative trust preferred securities through newly formed special-purpose trusts, Kankakee Capital Trust I (Trust I) and Centrue Statutory Trust II (Trust II). The proceeds of the offerings were invested by the trusts in junior subordinated deferrable interest debentures of Trust I and Trust II totaling \$20,620. Trust I and Trust II are wholly-owned subsidiaries of the Company, and their sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a variable rate of 3.70% and 2.65% over the LIBOR rate, respectively, (at a rate of 9.06% and 8.01% at December 31, 2006) per annum of the stated liquidation amount of \$1,000 per preferred security. Interest expense on the trust preferred securities was \$242 since the date of the merger. The interest can be deferred at the option of the Company. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company. The trust preferred securities for Trust I are mandatorily redeemable upon the maturity of the debentures on April 7, 2032, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 7, 2007. The trust preferred securities for Trust II are mandatorily redeemable upon the maturity of the debentures on April 22, 2034, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 22, 2009. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's capital stock. For regulatory purposes, the trust preferred securities qualify as Tier 1 capital subject to certain provisions.

In accordance with FASB interpretation 46R, the trusts are not consolidated with the Company's consolidated financial statements, but rather the subordinated debentures are shown as a liability and the Company's investment in the common stock for the trusts of \$620 is included in other assets.

Note 11. Borrowed Funds

At December 31, 2006, \$8,300 of Federal Home Loan Bank advances have various call provisions. The Company maintains a collateral pledge agreement covering secured advances whereby the Company had specifically pledged \$192,800 of first mortgage loans on improved residential and mixed use farm property free of all other pledges, liens, and encumbrances (not more than 90 days delinquent) and securities carried at \$15,100. The Company has two variable rate advances, one at a rate of 5.35% and the other is at 5.39% at year-end 2006 and one at 4.29% at year-end 2005. The remaining advances are at

(Continued)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 11. Borrowed Funds (continued)

fixed rates ranging from 2.63% to 4.90%. The scheduled maturities of advances from the Federal Home Loan Bank at December 31, 2006 are as follows:

Year	2006		2005	
	Average Interest Rate	Amount	Average Interest Rate	Amount
2006			4.98%	\$ 8,300
2007	4.74%	\$ 31,530	3.51	10,200
2008	2.96	13,329	2.97	13,300
2009	3.78	5,023	3.78	5,000
2010	4.50	5,200	4.50	5,200
2011	4.90	3,000	--	--
Thereafter	4.37	5,065	4.68	8,000
	4.25%	\$ 63,147	3.93%	\$ 50,000
		=====		=====

Notes payable consisted of the following at December 31, 2006 and 2005:

	2006	2005
Line of credit loan (\$3,000) from LaSalle National Bank; interest due quarterly at the higher of (1) 90-day LIBOR plus 1.75% or (2) 4%; balance due on January 1, 2007; secured by 100% of the stock of Centrue Bank	\$ --	\$ 1,000
Revolving credit loan (\$15,000) from LaSalle National Bank; interest due quarterly at the higher of (1) 90-day LIBOR plus 1.75% or (2) 4%; balance due on January 1, 2007; secured by 100% of the stock of Centrue Bank	7,850	8,200
A promissory note to an individual related to the purchase of the Howard Marshall Agency. The original amount of the note was \$376. The note was entered into on November 1, 2003 and carries an interest rate of 5%		
The note requires monthly installment payments of principal and interest. The note matures on November 1, 2008	149	268
A note to an individual related to the purchase of the Parrish Bank. The original amount was		

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

\$2,000. The note was entered into on October 23, 2002 and carries as imputed interest rate of 5.25%. The note matures on October 24, 2012

	1,016	--
	-----	-----
	\$ 9,015	\$ 9,468
	=====	=====

The note payable agreements with LaSalle National Bank contain certain covenants that limit the amount of dividends paid, the purchase of other banks and/or businesses, the purchase of investments not in the ordinary course of business, changes in capital structure, and guarantees of other liabilities and obligations. In addition, the Company must maintain certain financial ratios. The Company was in compliance with all covenants for the year ended December 31, 2006.

(Continued)

74.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 11. Borrowed Funds (Continued)

Information concerning borrowed funds is as follows:

	Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Federal Funds Purchased			
Year-end balance	\$ --	\$ --	\$ 11,700
Maximum month-end balance during the year	12,000	8,600	11,700
Average balance during the year	1,884	2,340	1,935
Weighted average interest rate for the year	5.25%	3.34%	1.71%
Weighted average interest rate at year end	N/A	N/A	1.71%
Advances from the Federal Home Loan Bank			
Maximum month-end balance during the year	\$ 63,165	\$ 61,900	\$ 74,700
Average balance during the year	46,487	54,472	70,359
Weighted average interest rate for the year	3.92%	3.91%	4.10%
Weighted average interest rate at year end	4.25%	3.93%	3.91%
Notes Payable			
Maximum month-end balance during the year	\$ 10,846	\$ 10,105	\$ 7,882
Average balance during the year	9,081	8,345	7,347
Weighted average interest rate for the year	6.93%	5.11%	4.18%
Weighted average interest rate at year end	6.36%	5.53%	3.33%

Note 12. Income Taxes

Income taxes consisted of:

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	Years Ended December 31,		
	2006	2005	2004
Federal			
Current	\$ (690)	\$ 1,189	\$ 1,243
Deferred	2,322	28	438
	1,632	1,217	1,681
State			
Current	113	(20)	349
Deferred	138	2	26
	251	(18)	375
	\$ 1,883	\$ 1,199	\$ 2,056

The Company's income tax expense differed from the statutory federal rate of 34% as follows:

	Years Ended December 31,		
	2006	2005	2004
Expected income taxes	\$ 2,404	\$ 1,826	\$ 2,332
Income tax effect of			
Interest earned on tax-free investments and loans	(394)	(397)	(471)
Nondeductible interest expense incurred to carry tax-free investments and loans	50	35	37
Nondeductible amortization	--	--	117
State income taxes, net of federal tax benefit	166	154	241
State income tax refund	(18)	(251)	--
Increase in CSV of officers' life insurance	(214)	(186)	(195)
Deductible merger expenses	(98)	--	--
Stock option expense	105	--	--
Other	(118)	18	(5)
	\$ 1,883	\$ 1,199	\$ 2,056

(Continued)

75.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 12. Income Taxes (continued)

The significant components of deferred income tax assets and liabilities consisted of:

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	December 31,	
	2006	2005
Deferred tax assets		
Allowance for loan losses	\$ 4,174	\$ 3,246
Deferred compensation, other	325	209
Stock option expense under FAS 123R	88	--
Net operating loss carryforwards	2,222	--
Deferred tax asset arising from merger	198	--
	-----	-----
Total deferred tax assets	7,007	3,455
Deferred tax liabilities		
Depreciation	\$ (781)	\$ (430)
Basis adjustments arising from acquisitions	(1,426)	(1,147)
Mortgage servicing rights	(1,363)	(983)
Securities available-for-sale	(149)	(60)
Federal Home Loan Bank dividend received in stock	(791)	(512)
Deferred loan fees & costs under FASB 91	(457)	--
Other	(214)	(147)
	-----	-----
	(5,181)	(3,279)
Valuation allowance on NOL carryforwards	(370)	--
	-----	-----
Total deferred tax liabilities	(5,551)	(3,279)
	-----	-----
Net deferred tax liabilities	\$ 1,456	\$ 176
	=====	=====

The December 31, 2006 deferred tax asset includes \$3,827 of purchase accounting and other merger related deferred tax assets transferred in as a result of the Company's merger. The Federal net operating loss is related to the acquisition of the Illinois Community Bancorp Inc. transaction. The NOL expires in 2021 thru 2024. The NOL can be used at a rate of \$158,673 per year. Due to Section 382 limitations, any unused amounts that can not be used will expire. Thus, the valuation allowance was established. See Note 23 for further information related to the merger.

Note 13. Benefit Plans

The Company's Employee Stock Ownership Plan ("the Plan") covered all full-time employees who had completed six months of service and have attained the minimum age of twenty and one-half years. As of October 1, 2006, the Company terminated this plan and began the process of distributing the assets of the plan to participants. As of December 31, 2006, the Plan owned 304,732 shares of the Company's common stock. All shares held by the Plan are allocated to plan participants. The Company expenses all cash contributions made to the Plan. Contributions were \$165, \$223, and \$269, for the years ended December 31, 2006, 2005, and 2004.

The Company has a 401(k) salary reduction plan (the 401(k) plan) covering substantially all employees. Eligible employees may elect to make tax deferred contributions up to annual IRS contribution limits under the company safe harbor plan status. In 2006, the Company contributed 4% of employee wages to all eligible participants regardless of whether and to what extent the employee elected a salary deferral. Contributions to the 401(k) plan are expensed currently and approximated \$427, \$415 and \$339 for the years ended December 31, 2006, 2005, and 2004.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

(Continued)

76.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 14. Stock Option Plans

In 1999, the Company adopted the 1999 Option Plan. Under the 1999 Option Plan, nonqualified options may be granted to employees and eligible directors of the Company and its subsidiaries to common stock at 100% of the fair market value on the date the option is granted. The Company has authorized 50,000 shares for issuance under the 1999 Option Plan. During 1999, 40,750 of these shares were granted and are 100% fully vested. The options have an exercise period of ten years from the date of grant. There are 9,250 shares available to grant under this plan.

In April 2003, the Company adopted the 2003 Option Plan. Under the 2003 Option Plan, nonqualified options, incentive stock options, and/or stock appreciation rights may be granted to employees and outside directors of the Company and its subsidiaries to purchase the Company's common stock at an exercise price to be determined by the 2003 Option Plan's administrative committee. Pursuant to the 2003 Option Plan, 200,000 shares of the Company's unissued common stock have been reserved and are available for issuance upon the exercise of options and rights granted under the 2003 Option Plan. The options have an exercise period of ten years from the date of grant. There are 85,000 shares available to grant under this plan.

In addition to the Company plans described above, in conjunction with the merger with Centrue Financial Corporation, all outstanding options at Centrue Financial were converted into options to acquire Company common stock, as adjusted for the exchange ratio. Following the merger, no additional options are issuable under any of the previous Centrue plans.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	2006	2005	2004
	-----	-----	-----
Fair value	\$ 4.89	\$ 4.94	\$ 4.74
Risk-free interest rate	5.14%	4.56%	3.32%
Expected option life (years)	6	5	5
Expected stock price volatility	23.45%	23.45%	24.58%
Dividend yield	2.47%	1.92%	1.90%

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

(Continued)

77.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 14. Stock Option Plans (Continued)

A summary of the status of the option plan for 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	-----	-----	-----	-----
Outstanding at beginning of year	301,675	\$ 15.74		
Assumed in Merger	237,860	18.78		
Granted	25,000	19.76		
Exercised	(27,300)	10.30		
Forfeited	(42,811)	16.21		
	-----	-----		
Outstanding at end of year	494,424	\$ 18.47	5.1 years	\$ 1,115
	=====	=====	=====	=====
Exercisable at year end	462,424	\$ 18.39	5.0 years	\$ 1,115
	=====	=====	=====	=====

Options outstanding at year-end 2006 were as follows:

Range of Exercise Prices	Outstanding		Exercisable	
	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
-----	-----	-----	-----	-----
\$ 7.25 - \$ 9.75	7,000	0.2 years	7,000	\$ 9.75
11.25 - 13.00	53,931	3.4 years	53,931	11.64
13.88 - 18.50	157,293	4.1 years	157,293	15.50
21.75 - 23.31	276,200	6.1 years	244,200	22.00
	-----	-----	-----	-----
	494,424	5.1 years	462,424	\$ 18.39
	=====	=====	=====	=====

Information related to the stock option plan during each year follows:

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	2006	2005	2004
	-----	-----	-----
Intrinsic value of options exercised	\$ 250	\$ 454	\$ 161
Cash received from option exercises	356	578	161
Tax benefit realized from option exercises	75	106	42
Weighted average of fair value of options granted	19.27	20.68	21.75

As of December 31, 2006, there was \$236 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 5.1 years.

(Continued)

78.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

 Note 15. Earnings Per Share

A reconciliation of the numerators and denominators for earnings per common share computations for the years ended December 31 is presented below (shares in thousands). The Convertible Preferred Stock is antidilutive for all years presented and has not been included in the diluted earnings per share calculation. In addition, options to purchase 244,200 shares, 60,000 shares and 40,000 shares of common stock were outstanding for 2006, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price and, therefore, were antidilutive.

	2006	2005	2004
	-----	-----	-----
Basic earnings per share			
Income from continuing operations available to common stockholders	\$ 5,395	\$ 4,172	\$ 5,083
Net loss from discontinued operations available to common stockholders	\$ (415)	\$ (206)	\$ (487)
Net income available to common stockholders	\$ 4,980	\$ 3,966	\$ 4,596
Weighted average common shares outstanding	4,119	3,944	4,034
Basic earnings per common Share from continuing operations	\$ 1.31	\$ 1.06	\$ 1.26
Basic earnings per common share			

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

from discontinued operations	\$ (0.10)	\$ (0.05)	\$ (0.12)
	=====	=====	=====
Basic earnings per common share	\$ 1.21	\$ 1.01	\$ 1.14
	=====	=====	=====
Weighted average common shares outstanding	4,119	3,944	4,034
Add dilutive effect of assumed exercised stock options	45	59	76
	-----	-----	-----
Weighted average common and dilutive potential shares outstanding	4,164	4,003	4,110
	=====	=====	=====
Diluted earnings per common share from continuing operations	\$ 1.30	\$ 1.04	\$ 1.24
	=====	=====	=====
Diluted earnings per common share from discontinued operations	\$ (0.10)	\$ (0.05)	\$ (0.12)
	=====	=====	=====
Diluted earnings per common share	\$ 1.20	\$ 0.99	\$ 1.12
	=====	=====	=====

Note 16. Regulatory Matters

The Company and Centrue Bank are subject to regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Centrue 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.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Centrue Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets

(Continued)

79.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 16. Regulatory Matters (continued)

and of Tier I capital to average assets. Management believes, as of December 31, 2006, that the Company and Centrue Bank meet all of the capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the corresponding regulatory agency categorized Centrue Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Centrue Bank must maintain minimum total risk-based,

Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed Centrue Bank's categories.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	Actual		To Be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio
As of December 31, 2006				
Total capital (to risk-weighted assets)				
Centrue Financial	\$ 110,703	11.9%	\$ 74,150	8.0%
Centrue Bank	113,579	12.4	73,533	8.0
Tier I capital (to risk-weighted assets)				
Centrue Financial	\$ 99,869	10.8	37,075	4.0
Centrue Bank	102,745	11.2	36,766	4.0
Tier I leverage ratio (to average assets)				
Centrue Financial	\$ 99,869	7.9	49,798	4.0
Centrue Bank	102,745	8.3	49,424	4.0
As of December 31, 2005				
Total capital (to risk-weighted assets)				
Centrue Financial	\$ 66,812	13.3%	\$ 40,107	8.0%
Centrue Bank	77,475	15.5	40,076	8.0
Tier I capital (to risk-weighted assets)				
Centrue Financial	\$ 60,546	12.1	20,054	4.0
Centrue Bank	71,214	14.2	20,038	4.0
Tier I leverage ratio (to average assets)				
Centrue Financial	\$ 60,546	9.0	26,831	4.0
Centrue Bank	71,214	10.6	26,816	4.0

The Company's ability to pay dividends is dependent on the subsidiary bank, which is restricted by various laws and regulations. Under these regulations, the amount of dividends that may be paid in any calendar year

(Continued)

80.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 16. Regulatory Matters (continued)

is limited to the current year's net profits, combined with the retained net profits of the preceding two years subject to the capital requirements described above. The Bank can declare dividends to the holding company to the extent its

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

2007 net income exceeds \$955. However, based on the cash and liquid assets available at the holding company these restrictions would not prohibit the paying of dividends at historical levels.

Note 17. Fair Value of Financial Instruments

The methods and assumptions used to estimate fair value are described as follows:

The carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer. The carrying value and fair value of the subordinated debentures issued to capital trusts are estimated to be the same as the debentures all have variable interest rates. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, the fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. The fair value of loans held for sale is based on market quotes. The fair value of debt and redeemable stock is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements.

The estimated fair values of the Company's financial instruments were as follows:

	December 31,			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 40,195	\$ 40,195	\$ 24,358	\$ 24,358
Securities	298,692	298,692	196,440	196,440
Loans	826,109	821,817	409,163	405,300
Accrued interest receivable	7,673	7,673	4,418	4,418
Financial liabilities				
Deposits	1,026,610	1,025,838	543,841	521,300
Federal funds purchased and securities sold under agreements to repurchase	36,319	36,319	612	612
Federal Home Loan Bank Advances	63,147	61,998	50,000	48,800
Notes payable	9,015	9,015	9,468	9,468
Subordinated debentures	20,620	20,620	--	--
Series B mandatory redeemable preferred stock	831	831	831	831
Accrued interest payable	5,895	5,895	3,206	3,206

(Continued)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 17. Fair Value of Financial Instruments (continued)

In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, nonfinancial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the earnings potential of loan servicing rights, the earnings potential of the trust operations, the trained work force, customer goodwill, and similar items.

Note 18. Commitments, Contingencies, and Credit Risk

In the normal course of business, there are various contingent liabilities outstanding, such as claims and legal actions, which are not reflected in the consolidated financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claim.

Centrue Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The contractual amounts of these instruments reflect the extent of involvement in particular classes of financial instruments.

Centrue Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contractual amount of those instruments. Centrue Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Financial instruments whose contract amounts represent credit risk are as follows:

	Standby Letters of Credit	Variable Rate Commitments	Fixed Rate Commitments	Total Commitments	Range of Rates on Fixed Rate Commitments
Commitments to extend credit and standby letters of credit					
December 31, 2006	\$ 10,937	\$ 159,944	\$ 32,864	\$ 203,745	2.25% - 18.00%
December 31, 2005	\$ 8,066	\$ 58,667	\$ 20,777	\$ 87,510	2.25% - 18.00%

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. For commitments to extend credit, Centrue Bank evaluates each customer's creditworthiness on a case-by-case basis. The

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable; inventory; property, plant, and equipment; and income producing commercial properties.

(Continued)

82.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 18. Commitments, Contingencies, and Credit Risk (continued)

Standby letters of credit are conditional commitments issued by Centrue Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan commitments to customers. The standby letters of credit are unsecured.

The Company has employment agreements with certain executive officers and certain other management personnel. These agreements generally continue until terminated by the executive or the Company and provide for continued salary and benefits to the executive under certain circumstances. The agreements provide the employees with additional rights after a change of control of the Company occurs.

The Company leases certain branch properties under operating leases. Rent expense was \$148, \$190, and \$196 for 2006, 2005 and 2004. Rent commitments, before considering renewal options that generally are present, were as follows:

2007	\$	429
2008		440
2009		451
2010		469
2011		480
Thereafter		480

Total	\$	2,749
		=====

Note 19. Condensed Financial Information - Parent Company Only

The primary source of funds for the Company is dividends from its subsidiaries. By regulation, Centrue Bank is prohibited from paying dividends that would reduce regulatory capital below a specific percentage of assets without regulatory approval. As a practical matter, dividend payments are restricted to maintain prudent capital levels.

(Continued)

83.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Note 19. Condensed Financial Information - Parent Company Only (Continued)

Condensed financial information for Centrue Financial Corporation follows:

Balance Sheets (Parent Company Only)

	December 31,	
ASSETS	2006	2005
Cash and cash equivalents	\$ 1,512	\$ 1,111
Securities available for sale	4,729	4,729
Investment in subsidiaries	141,064	76,729
Other assets	2,036	1,111
	\$ 149,341	\$ 76,900
	\$ 149,341	\$ 76,900

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
LIABILITIES	2006	2005
Notes payable	\$ 8,866	\$ 9,200
Mandatory redeemable preferred stock	831	831
Subordinated debentures	20,620	20,620
Other liabilities	833	833
	31,150	10,800
Stockholders' equity	118,191	66,000
	\$ 149,341	\$ 76,900
	\$ 149,341	\$ 76,900

Income Statements (Parent Company Only)

	Years Ended December 31,		
	2006	2005	2004
Dividends from subsidiaries	\$ 6,813	\$ 5,031	\$ 3,300
Interest income	44	--	--
Other income	8	6	1,200
Interest expense	910	459	300
Other expenses	1,066	488	3,400
Income tax benefit	(900)	(436)	(1,000)
Equity in undistributed earnings of subsidiaries (dividends in excess of earnings)	(602)	(353)	2,900
	5,187	4,173	4,800
Less dividends on preferred stock	207	207	200
	\$ 4,980	\$ 3,966	\$ 4,600

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Net income on common stock	\$ 4,980	\$ 3,966	\$ 4,5
	=====	=====	=====

(Continued)

84.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 19. Condensed Financial Information - Parent Company Only (Continued)

Statements of Cash Flows (Parent Company Only)

	Years Ended December 31,		
	2006	2005	2004
	-----	-----	-----
Cash flows from operating activities			
Net income	\$ 5,187	\$ 4,173	\$ 4,8
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	--	--	1
Undistributed earnings of subsidiaries	602	353	(2,9
Amortization of deferred compensation - stock options	--	--	
Decrease (increase) in other assets	(309)	(2)	5
Increase in other liabilities	692	(708)	1
	-----	-----	-----
Net cash provided by operating activities	6,172	3,816	2,8
Cash flows from investing activities			
Purchases of premises and equipment	--	--	2
Investment in subsidiaries	--	--	(6
	-----	-----	-----
Net cash provided by financing activities	--	--	(4
Cash flows from financing activities			
Net increase (decrease) in notes payable	\$ (1,550)	\$ 2,925	\$ (1,0
Dividend paid on common stock	(1,347)	(1,721)	(1,6
Dividends paid on preferred stock	(207)	(207)	(2
Proceeds from exercise of stock options	357	579	1
Stock option expense	(352)	--	
Purchase of treasury stock	(1,677)	(5,739)	(1
	-----	-----	-----
Net cash used in financing activities	(4,776)	(4,163)	(2,8
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(1,396)	(347)	(4
Cash and cash equivalents			
Beginning of year	116	463	9
	-----	-----	-----
End of year	\$ 1,512	\$ 116	\$ 4
	=====	=====	=====

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Note 20. Other Comprehensive Income

Changes in other comprehensive income components and related taxes are as follows:

	Years Ended December 31,		
	2006	2005	2004
Change in unrealized gains on securities available-for-sale	\$ 125	\$ (2,050)	\$ (1,1
Reclassification adjustment for losses (gains) recognized in income	104	79	(1
Net unrealized gains	229	(1,971)	(1,2
Tax expense	89	(715)	(5
Other comprehensive income	\$ 140	\$ (1,256)	\$ (7

(Continued)

85.

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 21. Segment Information

The Company's reporting was enhanced so that a line of business (LOB) reporting structure was implemented as of January 1, 2005. In 2006 and 2005, the reportable segments were determined by the products and services offered, primarily distinguished between retail, commercial, treasury, wealth management, and operations & other. Loans and deposits generate the revenues in the commercial segments; deposits, loans, secondary mortgage sales and servicing generates the revenue in the retail segment; investment income generates the revenue in the treasury segment; brokerage and trust services generate the revenue in the wealth management segment (formerly known as the Financial Services segment); and holding company services and discontinued operations associated with the sale of the insurance segment generate the revenue in the operations & other segment. The "net allocations" line in 2006 and 2005 represents the allocation of the costs that are overhead being spread to the specific segments. With the sale of the Insurance unit, the results for Insurance were reclassified into the Operations & Other segment from the Financial Services segment (which is now referred to as Wealth Management).

The merger became effective on November 13, 2006, and as such, the results for the former Centrue Bank are presented as a stand alone segment since its operations were not yet integrated at year end 2006. Comparable discrete financial information is not available for the acquired entity on the same reporting basis as the Company (e.g. the former UnionBancorp, Inc.).

Due to a change in the reporting systems, the 2004 data used to monitor segments is determined by the products and services offered, primarily distinguished

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

between banking, mortgage banking, financial services, and other operations. Loans, investments, and deposits provide the revenues in the banking segment; insurance, brokerage, and trust in the financial services segment; and holding company services are categorized as other. The accounting policies used with respect to segment reporting are the same as those described in the summary of significant accounting policies set forth in Note 1. Segment performance is evaluated using net income.

Information reported internally for performance assessment follows:

	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management	Other Operat
	-----	-----	-----	-----	-----
2006					

Net interest income (loss)	\$ 7,772	\$ 13,046	\$ 461	\$ 256	\$ (1
Other revenue	3,441	457	(104)	1,177	
Other expense	5,494	2,309	251	1,359	7
Noncash items					
Depreciation	891	11	--	7	1
Provision for loan losses	325	(1,625)	--	--	
Other intangibles	--	--	--	--	
Net allocations	3,231	5,221	812	880	(10
Income tax expense	387	2,485	(584)	(239)	
Segment profit (loss)	835	5,102	(122)	(574)	
Goodwill	2,512	2,631	--	1,167	
Segment assets	91,199	323,184	197,225	1,330	16

(Continued)

86.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 21. Segment Information (Continued)

	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management	Other Opera
	-----	-----	-----	-----	-----
2005					

Net interest income (loss)	\$ 7,527	\$ 13,191	\$ 302	\$ 102	\$
Other revenue	3,948	411	(79)	1,321	
Other expense	6,913	3,382	230	1,391	
Noncash items					
Depreciation	1,060	13	--	82	
Provision for loan losses	420	(170)	--	--	
Other intangibles	--	--	--	6	
Net allocations	2,886	4,603	523	844	(
Income tax expense	67	1,573	(431)	(231)	

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Segment profit (loss)	129	4,201	(99)	(669)
Goodwill	2,512	2,631	--	1,820
Segment assets	99,916	330,240	216,355	3,723

	Banking Segment	Mortgage Banking	Wealth Management
	-----	-----	-----
2004			

Net interest income	\$ 21,284	\$ 700	\$
Other revenue	9,012	2,070	
Other expense	16,833	1,605	
Noncash items			
Depreciation	1,956	100	
Provision for loan loss	1,924	--	
Amortization of intangibles	286	--	
Segment profit (loss)	9,297	1,065	
Income tax expense	--	--	
Income from continuing operations	9,297	1,065	
Goodwill	5,143	--	
Segment assets	662,415	2,620	

Note 22. Discontinued Operations

During 2006, the Company began evaluating whether strategically the Insurance unit was in its long-term goals. During the 3rd quarter of 2006, an opportunity surfaced that management determined was the best strategic action plan. Thus, the Company sold the Insurance unit of their Wealth Management segment to the Phoenix Group for \$1,200 and the deal closed on September 30, 2006. In accordance with FASB Statement No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("FAS 144") the results of operations of the insurance division are reflected in the Company's statements of income for 2006 and 2005 as "discontinued operations." The loss on sale of the insurance unit of \$452 and related tax benefit of \$175 are included in discontinued operations as of December 31, 2006. Additionally, approximately \$1,030

(Continued)

87.

CENTRUE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Share Data)

Note 22. Discontinued Operations (continued)

of goodwill and intangibles attributed to the Insurance unit on the Company's balance sheet were written off as a result of this transaction and factored into the loss on the sale of the discontinued operations.

	December 31,	

	2006	2005
		2004

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

	-----	-----	-----
Net interest income	\$ (5)	\$ (8)	\$
Noninterest income	976	1,305	1,7
Noninterest expense	1,196	1,623	2,1
	-----	-----	-----
Loss from discontinued operations before income taxes	(225)	(326)	(4
Loss on disposal	(452)	--	
Benefit for taxes	(262)	(120)	(1
	-----	-----	-----
Net income (loss) from discontinued operations	\$ (415)	\$ (206)	\$ (2
	=====	=====	=====

Note 23. Business Combinations

On November 13, 2006, the Company (formerly known as UnionBancorp, Inc. now known as Centru Financial Corporation) merged with Centru Financial Corporation (former Centru), parent of Centru Bank with the Company being the surviving entity in the merger. Operating results of former Centru are included in the consolidated financial statements since the date of the acquisition. As a result of this merger, the Company expects to further solidify its market share in the northern and central Illinois markets, expand its customer base to enhance deposit fee income, provide an opportunity to market additional products and services to new customers and reduce operating costs through economies of scale.

The aggregate purchase price was \$49,316, \$4 in cash and \$49,312 in common stock. The value of the 2,701 common shares issued was determined using the market price multiplied by the exchange rate of 1.2. The purchase price resulted in approximately \$19,086 of goodwill, and \$13,035 in core deposit and customer relationship intangible. The intangible asset(s) will be amortized over 10 years, using an accelerated method. Goodwill will not be amortized but instead it will be evaluated periodically each year for impairment.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	\$	26,5
Securities available-for-sale		125,7
Loans		431,6
Goodwill		19,0
Premises and equipment, net		20,7
Core deposit and other intangibles		13,0
Other assets		14,7

Total assets acquired		651,5
Deposits		(523,6
Other liabilities		(78,6

Total liabilities assumed		(602,2

Net assets acquired	\$	49,3
		=====

(Continued)

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 23. Business Combinations (continued)

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2006 and 2005. The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, and the related tax effects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed dates.

	December 31,	
	2006	2005
Net interest income	\$ 39,127	\$ 39,117
Net income	\$ 4,228	\$ 8,553
Basic earnings per share	\$ 0.98	\$ 2.03
Diluted earnings per share	\$ 0.97	\$ 2.00

(Continued)

CENTRUE FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In Thousands, Except Share Data)

Note 24. Quarterly Results of Operations (Unaudited)

	Year Ended December 31, 2006				Year Ended De	
	Three Months Ended				Three Mo	
	Dec. 31	Sep. 30	June 30	March 31	Dec. 31 (A)	Sep. 30
Total interest income	\$ 15,197	\$ 9,802	\$ 9,476	\$ 9,383	\$ 9,290	\$ 8,720
Total interest expense	7,902	4,728	4,523	4,198	3,884	3,502
Net interest income	7,295	5,074	4,953	5,185	5,406	5,218
Provision for loan losses	25	(200)	(300)	(800)	100	50
Noninterest income	2,363	1,481	1,380	1,464	1,405	1,702
Noninterest expense	8,372	4,591	4,767	4,993	5,639	5,347
Income (loss) before income taxes	1,261	2,164	1,866	2,456	1,072	1,523
Income tax expense (benefit)	162	658	543	782	243	405

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Income from continuing operations	1,099	1,506	1,323	1,674	829	1,118
Loss on discontinued Operations	(88)	(270)	(29)	(28)	(63)	(57)
Net income	1,011	1,236	1,294	1,646	766	1,061
Preferred stock dividend	51	52	52	52	51	52
Net income (loss) for common stockholders	\$ 960	\$ 1,184	\$ 1,242	\$ 1,594	\$ 715	\$ 1,009
Basic earnings per share from continuing operations	\$ 0.20	\$ 0.39	\$ 0.32	\$ 0.40	\$ 0.20	\$ 0.27
Diluted earnings per share from continuing operations	\$ 0.20	\$ 0.38	\$ 0.31	\$ 0.40	\$ 0.20	\$ 0.26
Basic earnings per share from discontinued operations	\$ (0.02)	\$ (0.07)	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Diluted earnings per share from discontinued operations	\$ (0.02)	\$ (0.07)	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Basic earnings (loss) per share	\$ 0.18	\$ 0.32	\$ 0.31	\$ 0.39	\$ 0.18	\$ 0.26
Diluted earnings (loss) per share	\$ 0.18	\$ 0.31	\$ 0.31	\$ 0.39	\$ 0.18	\$ 0.25

(A) The net income for the quarter was impacted by nonrecurring expenses primarily related to organizational restructuring. The impact to earnings was a decrease of approximately \$0.05 per diluted share.

(B) The net income for the quarter was impacted by a reduction in state income taxes related to the receipt of a tax refund related to amended returns outstanding from prior years. The impact to earnings was an increase of approximately \$0.06 per diluted share.

(Continued)

90.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation, with the participation of other members of management as they deemed appropriate, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as contemplated by Exchange Act Rule 13a-14 as of December 31, 2006. Based upon, and as of the date of that evaluation, the

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, in timely alerting them to material information relating to the Company (and its consolidated subsidiaries) required to be included in the periodic reports the Company is required to file and submit to the SEC under the Exchange Act.

There were no significant changes to the Company's internal control over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information beginning on page 2 of the Company's 2007 Proxy Statement under the caption "Election of Directors", on page 16 of the 2007 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Compliance," on page 31 under the caption "Audit Committee Financial Expert" and on page 6 under the caption "Code of Ethics" is incorporated herein by reference. The Company's executive officers are identified under the caption "Executive Officers" contained in Part I of this report.

The Audit Committee of the Company's Board of Directors is an "audit committee" for purposes of section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Messrs. Mark L. Smith, Chair, Walter E. Breipohl, Randall E. Ganim and Scott C. Sullivan.

Item 11. Executive Compensation

The information on page 7 under the caption "Compensation of Directors", pages 17 through 28 of the 2007 Proxy Statement under the caption "Compensation Discussion and Analysis," page 16 under the caption "Executive and Compensation Committee Interlocks," and page 16 "Report of Executive & Compensation Committee" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information on pages 14 through 16 of the 2007 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and on page 7 under the caption "Existing Equity Compensation Plans" is incorporated herein by reference.

91.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information on page 28 of the 2007 Proxy Statement under the caption "Transactions with Management" and on page 2 under the caption "Election of Directors" is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information on page 28 and 29 of the 2007 Proxy Statement under the caption "Accountant Fees" is incorporated herein by reference.

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Index to Financial Statements

The index to Financial Statements is contained in Item 8, appearing on page 46 of this Form 10-K.

(a) (2) Financial Statement Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the Consolidated Financial Statements or the notes thereto.

(a) (3) Schedule of Exhibits

The Exhibit Index which immediately follows the signature pages to this Form 10-K is incorporated herein by reference.

(b) Exhibits

The exhibits required to be filed with this Form 10-K are included with this Form 10-K and are located immediately following the Exhibit Index to this Form 10-K.

(c) Financial Statement Schedules

The response to this portion of Item 15 is submitted as a separate section of this report.

92.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 23, 2007.

CENTRUE FINANCIAL CORPORATION

By: /s/ THOMAS A. DAIBER

Thomas A. Daiber
President and Principal Executive
Officer

By: /s/ KURT R. STEVENSON

Kurt R. Stevenson
Senior Executive Vice President and
Principal Financial and Accounting
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 23, 2007

/s/ RICHARD J. BERRY

Richard J. Berry
Director

/s/ MICHAEL J. HEJNA

Michael J. Hejna
Director

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

/s/ WALTER E. BREIPOHL

Walter E. Breipohl
Director

/s/ DENNIS J. MCDONNELL

Dennis J. McDonnell
Director

/s/ THOMAS A. DAIBER

Thomas A. Daiber
Director

/s/ JOHN A. SHINKLE

John A. Shinkle
Director

/s/ RANDALL E. GANIM

Randall E. Ganim
Director

/s/ MARK L. SMITH

Mark L. Smith
Director

/s/ MICHAEL A. GRIFFITH

Michael A. Griffith
Director

/s/ SCOTT C. SULLIVAN

Scott C. Sullivan
Director

Centrue Financial Corporation

EXHIBIT INDEX
TO
ANNUAL REPORT ON FORM 10-K

Exhibits

- 3.1 Restated Certificate of Incorporation of the Company [incorporated by reference from Exhibit 3.1 to Current Report on Form 8-K filed on November 17, 2006].
- 3.2 Bylaws of the Company [incorporated by reference from Exhibit 3.2 to Current Report on Form 8-K filed on November 17, 2006].
- 4.1 Certificate of Designation, Preferences and Rights of Series A Convertible Preferred Stock of the Company [incorporated by reference from Exhibit 3.1 to Current Report on Form 8-K filed on November 17, 2006].
- 4.2 Certificate of Designation, Preferences and Rights of Series B Preferred Stock of the Company [incorporated by reference from Exhibit 3.1 to Current Report on Form 8-K filed on November 17, 2006].
- 4.3 Specimen Common Stock Certificate [filed herewith].
- 10.1 Registration Agreement dated August 6, 1996, between the Company and each of Wayne W. Whalen and Dennis J. McDonnell [incorporated by reference from Exhibit 10.10 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (File No. 33-9891)].
- 10.2 Loan Agreement between the Company and LaSalle National Bank dated August 2, 1996 [incorporated by reference from Exhibit 10.11 to the Registration Statement on Form S-1 filed by the Company on August 19, 1996 (File No. 33-9891)].
- 10.3 Centrue Financial Corporation 1999 Nonqualified Stock Option Plan [incorporated by reference from Exhibit 10.1 to the registration statement on Form S-8 filed by the Company on December 10, 1999 (File No. 333-92549)].

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

- 10.4 Centrue Financial Corporation 2000 Incentive Compensation Plan [incorporated by reference from Exhibit 10.1 to Centrue's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 as filed with the SEC on November 13, 2001].
- 10.5 Centrue Financial Corporation 2003 Stock Option Plan [incorporated by reference from Centrue's 2003 Proxy Statement].
- 10.6 Form of Stock Option Agreements [incorporated by reference from Exhibit 10.1 to Form 10-Q/A for the Quarter Ended September 30, 2005]
- 10.7 Thomas A. Daiber Employment Agreement [incorporated by reference from Current Report on Form 8-K filed on July 7, 2006 (appears as Exhibit F-1 to Exhibit 2.1)].
- 10.8 Kurt R. Stevenson Employment Agreement [incorporated by reference from Current Report on Form 8-K filed on July 7, 2006 (appears as Exhibit F-3 to Exhibit 2.1)]
- 10.9 Amendment to Kurt R. Stevenson Employment Agreement [incorporated by reference from Exhibit 2.2 to Current Report on Form 8-K filed on November 17, 2006].
- 10.10 Donald L. Brown Employment Agreement [filed herewith]
- 10.11 Roger D. Dotson Employment Agreement [filed herewith].
- 10.12 Steven E. Flahaven Employment Agreement [filed herewith].
- 10.13 Heather M. Hammitt Employment Agreement [filed herewith].
- 10.14 Kenneth A. Jones Employment Agreement [filed herewith].
- 10.15 Diane F. Leto Employment Agreement [filed herewith].
- 10.16 Michael A. O'Gorman Employment Agreement [filed herewith].
- 10.17 Ricky R. Parks Employment Agreement [filed herewith].
- 10.18 Everett J. Solon Employment Agreement [filed herewith].
- 10.19 Non-employee Directors' Deferred Compensation Plan [incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K filed December 21, 2006].
- 10.20 Kankakee Bancorp, Inc. 1992 Stock Option Plan [incorporated by reference from Schedule 14A for the 1993 Annual Meeting of Stockholders of former Centrue Financial Corporation (Filer No. 001-15025)].
- 10.21 Kankakee Bancorp, Inc. 2003 Director Short Term Incentive Plan [incorporated by reference from Exhibit 10.1 to Form S-8 (Registration No. 333-104913) of former Centrue Financial Corporation (Filer No. 001-15025) filed on May 1, 2003].
- 10.22 Kankakee Bancorp, Inc. 2003 Stock Incentive Plan [incorporated by reference from Appendix B to Schedule 14A filed on March 14, 2003 of former Centrue Financial Corporation (Filer No. 001-15025)].
- 10.23 Indenture dated April 10, 2002 between the Company and Wilmington Trust

Edgar Filing: CENTRUE FINANCIAL CORP - Form 10-K

Company [incorporated by reference from Exhibit 10.9 to Form 10-K for the year ended December 31, 2004 of former Centrue Financial Corporation (Filer No. 001-15025)].

- 10.24 Indenture dated April 22, 2004 between the Company and U.S. Bank, N.A. [incorporated by reference from Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2004 of former Centrue Financial Corporation (Filer No. 001-150250)].
- 14.1 Code of Ethics [filed herewith]
- 21.1 Subsidiaries of Centrue Financial Corporation.
- 23.1 Consent of Crowe Chizek and Company LLC.

- 31.1. Certification of Thomas A. Daiber, the Company's Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Kurt R. Stevenson, the Company's Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's President and Principal Executive Officer.
- 32.2* Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, from the Company's Senior Executive Vice President and Principal Financial and Accounting Officer.

- * This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.