

CENTRUE FINANCIAL CORP

Form 10-Q

August 13, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended June 30, 2004.

or

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

Commission File Number **1-13676**

CENTRUE FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

36-3846489

(State or Other Jurisdiction of
Incorporation
or Organization)

(I.R.S. Employer Identification Number)

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

60901

(Address of Principal Executive Offices)

(Zip Code)

(815) 937-4440

(Registrant's telephone number, including area code)

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

Yes No

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

As of August 11, 2004, there were 2,500,116 issued and outstanding shares of the Issuer's common stock.

CENTRUE FINANCIAL CORPORATION

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PART I. - FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements (Unaudited)

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

	June 30 2004	December 31 2003
	(dollars in thousands)	
Assets		
Cash and due from banks	\$ 10,536	\$ 13,558
Interest bearing due from banks and other	1,712	14,831
Federal funds sold		17,216
	<hr/>	<hr/>
Cash and cash equivalents	12,248	45,605
Certificates of Deposit	248	50
Investment Securities:		
Available-for-sale, at fair value	112,627	87,712
Held-to-maturity, (fair value: \$681 and \$912)	681	892
Loans, net of allowance for loan losses of (\$7,626 and \$7,471)	435,493	425,840
Loans held for sale	724	
Premises and equipment	16,975	17,113
Goodwill	12,446	11,433
Life insurance contracts	8,951	8,752
Non-marketable equity securities	4,106	3,298
Accrued interest receivable	2,710	2,552
Intangible assets	1,896	1,229
Real estate held for sale	681	319
Other assets	4,136	4,413
	<hr/>	<hr/>
Total Assets	\$613,922	\$609,208
	<hr/>	<hr/>
Liabilities		
Deposits:		
Noninterest bearing	\$ 50,864	\$ 42,400
Interest bearing	450,172	451,952
	<hr/>	<hr/>
Total Deposits	501,036	494,352
Borrowings	43,562	54,396
Junior subordinated debt owed to unconsolidated trusts	20,000	10,000

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Other liabilities	5,513	4,817
	<u> </u>	<u> </u>
Total Liabilities	570,111	563,565
Stockholders' Equity		
Preferred stock, \$.01 par value 500,000 shares authorized and unissued		
Common stock, \$.01 par value 5,500,000 authorized; 4,200,300 shares issued	42	42
Additional paid-in capital	28,952	28,929
Retained income, partially restricted	41,064	39,231
Accumulated other comprehensive income (loss)	(501)	1,088
Unearned restricted stock (26,400 and 27,800 shares)	(673)	(820)
Treasury stock, (1,672,484 and 1,594,278 shares), at cost	(25,073)	(22,827)
	<u> </u>	<u> </u>
Total Stockholders' Equity	43,811	45,643
	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$613,922	\$609,208
	<u> </u>	<u> </u>

See the accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans	\$ 6,144	\$ 5,621	\$ 12,438	\$ 11,832
Investments	1,059	806	1,999	1,781
Deposits with banks and other	18	137	94	240
FHLB stock dividends	52	77	108	121
	<u>7,273</u>	<u>6,641</u>	<u>14,639</u>	<u>13,974</u>
Total interest and dividend income				
Interest expense:				
Deposits	1,918	2,321	4,017	4,935
Borrowings	467	522	1,048	1,110
Junior subordinated debt owed to unconsolidated trusts	218	136	331	276
	<u>2,603</u>	<u>2,979</u>	<u>5,396</u>	<u>6,321</u>
Total interest expense				
Net interest income	4,670	3,662	9,243	7,653
Provision for loan losses	300	3,683	600	3,749
	<u>4,370</u>	<u>(21)</u>	<u>8,643</u>	<u>3,904</u>
Net interest income (loss) after provision for loan losses				
Noninterest income:				
Fee income	990	392	1,881	1,024
Net gain on sale of securities			89	
Net gain on sale of real estate held for sale	46	6	39	32
Net gain on sale of loans	317	480	423	862
Gain on sale of branch				478
Increase in cash surrender value of life Insurance contracts	99	116	199	228
Other	51	122	121	233
	<u>1,503</u>	<u>1,116</u>	<u>2,752</u>	<u>2,857</u>
Total noninterest income				
Noninterest expense:				

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Compensation and benefits	2,134	1,894	4,397	3,803
Occupancy, net	325	312	720	651
Furniture and equipment	354	208	689	384
Advertising	57	89	121	195
Data processing	137	105	300	237
Telephone and postage	152	132	281	270
Amortization of intangibles	61	34	107	72
Legal and professional fees	166	204	402	420
Other	761	623	1,439	1,238
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total noninterest expense	4,147	3,601	8,456	7,270
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) before income taxes	1,726	(2,506)	2,939	(509)
Income tax expense (benefit)	544	(1,003)	911	(377)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ 1,182	\$ (1,503)	\$ 2,028	\$ (132)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other comprehensive loss:				
Change in unrealized gains or losses on available for sale securities, net of related income taxes	(1,843)	(95)	(1,530)	(264)
Less: reclassification adjustment for gains included in net income net of related income taxes			59	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other comprehensive loss	(1,843)	(95)	(1,589)	(264)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive income (loss)	\$ (661)	\$ (1,598)	\$ 439	\$ (396)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings (loss) per share	\$ 0.47	\$ (0.81)	\$ 0.79	\$ (0.06)
Diluted earnings (loss) per share	\$ 0.46	\$ (0.80)	\$ 0.79	\$ (0.06)
Dividends per share		\$ 0.075	\$ 0.075	\$ 0.15

See the accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30	
	2004	2003
	(dollars in thousands)	
Operating activities		
Net income	\$ 2,028	\$ (132)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	3,749
Depreciation and amortization	850	515
Net amortization on investments	(171)	64
Amortization of intangibles	107	72
Deferred income taxes	818	
Origination of loans held for sale	(14,923)	(31,969)
Proceeds from sales of loans held for sale	14,622	32,475
Gain on sale of loans	(423)	(862)
Gain on sale of securities	(89)	
Gain on sale of real estate held for sale	(39)	(32)
Gain on sale of branch		(478)
Compensation expense for restricted stock	147	
Increase in cash surrender value of life insurance contracts	(199)	(228)
Federal Home Loan Bank stock dividends	(108)	(121)
Changes in:		
Accrued interest receivable	(54)	604
Other assets and other liabilities, net	584	(2,146)
	3,750	1,511
Net cash provided by operating activities		
Investing activities		
Proceeds from maturities of certificates of deposit	100	
Purchases of available for sale securities	(40,460)	(10,666)
Proceeds from sales of available for sale securities	3,948	
Proceeds from maturities of available for sale securities	18,132	27,860
Proceeds from maturities of held-to-maturity securities	211	175
Proceeds from sales of real estate held for sale	196	241
Cash paid for branch sale		(12,315)
Purchase of Parish Bank and Trust Company, net	38	
Net (increase) decrease in loans	(3,430)	30,483
Purchases of bank premises and equipment	(443)	(4,038)
	(21,709)	31,740
Net cash (used in) provided by investing activities		
Financing activities		
Net increase (decrease) in deposits	(11,840)	12,968

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Proceeds from borrowings	2,100	800
Repayments of borrowings	(12,934)	(11,800)
Proceeds from issuance of junior subordinated debt owed to unconsolidated trusts	9,695	
Proceeds from exercise of stock options	94	
Dividends paid	(195)	(315)
Purchase of treasury stock	(2,317)	(9,308)
	<u> </u>	<u> </u>
Net cash used in financing activities	(15,398)	(7,655)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(33,357)	25,596
Cash and cash equivalents beginning of year	45,605	47,426
	<u> </u>	<u> </u>
Cash and cash equivalents end of period	\$ 12,248	\$ 73,022
	<u> </u>	<u> </u>

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	Six Months Ended June 30	
	2004	2003
	(dollars in thousands)	
Supplemental disclosure of cash flow information		
Interest paid	\$ 5,513	\$ 6,483
Income taxes paid	1,290	1,254
Real estate acquired in settlement of loans	519	106
Sale of branch:		
Assets disposed:		
Loans		\$ (6,370)
Interest receivable		(24)
Premises and equipment		(165)
Other assets		(197)
Liabilities assumed by buyer:		
Demand deposits		2,162
Certificates of deposit		17,243
Other liabilities		144
Gain on sale of branch		(478)
		<hr/>
Cash paid		\$12,315
		<hr/>
Acquisition of Parish Bank and Trust Company:		
Assets acquired:		
Certificates of Deposit	\$ (298)	
Investments	(8,616)	
Loans, net	(7,342)	
Interest receivable	(104)	
Premises and equipment	(269)	
Goodwill	(1,013)	
Intangibles	(774)	
Other assets	(157)	
Liabilities assumed:		
Non-interest bearing deposits	5,462	
Interest-bearing deposits	13,062	
Other liabilities	87	
		<hr/>
Cash received, net of cash paid	\$ 38	
		<hr/>

See the accompanying notes to consolidated financial statements.

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CENTRUE FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2004

Note 1 - Basis of Presentation

The consolidated financial statements of Centrue Financial Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The December 31, 2003 balance sheet has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the annual report for the Company on Form 10-K for the year ended December 31, 2003.

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

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

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

Certain 2003 amounts have been reclassified where appropriate to conform to the consolidated financial statement presentation used in 2004 with no effect on previously reported net income or stockholders' equity.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	(dollars in thousands, except per share data)			
Net income (loss), as reported	\$ 1,182	\$ (1,503)	\$ 2,028	\$ (132)
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	185	157	224	157
Pro forma net income (loss)	<u>\$ 997</u>	<u>\$ (1,660)</u>	<u>\$ 1,804</u>	<u>\$ (289)</u>
Earnings (loss) per share:				
Basic as reported	\$ 0.47	\$ (0.81)	0.79	\$(0.06)
Basic pro forma	0.39	(0.89)	0.70	(0.15)
Diluted as reported	0.46	(0.80)	0.79	(0.06)
Diluted pro forma	0.39	(0.88)	0.70	(0.15)

Note 2 Common Stock Split

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

Note 3 Earnings (Loss) Per Share

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

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	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
(dollars in thousands, except share and per share data)				
Basic				
Net Income (loss)	\$ 1,182	\$ (1,503)	\$ 2,028	\$ (132)
Average common shares outstanding	2,536,965	1,865,222	2,558,500	1,999,032
Net income (loss) per common share basic	\$ 0.47	\$ (0.81)	\$ 0.79	\$ (0.06)
Diluted				
Net Income (loss)	\$ 1,182	\$ (1,503)	\$ 2,028	\$ (132)
Average common shares outstanding	2,536,965	1,865,222	2,558,500	1,999,032
Dilutive potential due to stock options	8,240	4,328	8,968	2,704
Average common shares outstanding	2,545,205	1,869,550	2,567,468	2,001,736
Net income (loss) per common share diluted	\$ 0.46	\$ (0.80)	\$ 0.79	\$ (0.06)

Note 4 Acquisition of Parish Bank and Trust Company

On March 5, 2004, the Company acquired for cash all of the outstanding shares of Parish Bank and Trust Company (Parish Bank) for a total cost of \$4.5 million. The acquisition was accounted for using the purchase method of accounting. As such, the results of operations of the acquired entity are excluded from the consolidated financial statements of income for the periods prior to the acquisition date. The purchase price has been allocated based on the fair values at the date of acquisition. This allocation resulted in intangible assets of \$774,000 and goodwill of \$1.0 million. The intangible assets are being amortized over ten years. At closing, Parish Bank had assets of \$21.5 million, including \$7.3 million of loans, deposits of \$18.5 million and stockholders' equity of \$2.9 million. This

acquisition was not considered material to the Company as a whole and therefore, proforma information is not included.

Note 5 Adoption of FASB Interpretation No. 46

The Company adopted FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (Revised December 2003)* in connection with its consolidated financial statements for the quarter and six-months ended June 30, 2004. FIN 46 establishes accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE entity is the entity that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship or other business relationship with a VIE. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The implementation of FIN 46, as revised, required the Company to de-consolidate its investment in Kankakee Capital Trust I as of January 1, 2004, because the Company is not the primary beneficiary. The Company's prior financial statements were not reclassified to de-

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consolidate the Company's investment in the Trust. There was no impact on shareholders equity or net income upon adoption of the standard.

Note 6 Junior Subordinated Debt Owed to Unconsolidated Trusts

The Company issued \$10.0 million each in April 2002 and April 2004 of cumulative trust preferred securities through newly formed special-purpose trusts, Kankakee Capital Trust I (Trust I) and Centrue Statutory Trust II (Trust II). The proceeds of the offerings were invested by the trusts in junior subordinated deferrable interest debentures of Trust I and Trust II. Trust I and Trust II are wholly-owned unconsolidated subsidiaries of the Company, and their sole assets are the junior subordinated deferrable interest debentures. Distributions are cumulative and are payable quarterly at a variable rate of 3.70% and 2.65% over the LIBOR rate, respectively, (at a rate of 5.07% and 4.20% at June 30, 2004) per annum of the stated liquidation amount of \$1,000 per preferred security. Interest expense on the trust preferred securities was \$218,000 and \$136,000 for the three months ended June 30, 2004 and 2003, and \$331,000 and \$276,000 for the six months ended June 30, 2004 and 2003, respectively. The obligations of the trusts are fully and unconditionally guaranteed, on a subordinated basis, by the Company. The trust preferred securities for Trust I are mandatorily redeemable upon the maturity of the debentures on April 7, 2032, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 7, 2007. The trust preferred securities for Trust II are mandatorily redeemable upon the maturity of the debentures on April 22, 2034, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning April 22, 2009. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's capital stock. For regulatory purposes, the trust preferred securities qualify as Tier I capital subject to certain provisions.

On May 6, 2004, the Board of Governors of the Federal Reserve System issued a Notice of Proposed Rulemaking in which it proposed to allow the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter standards. The Federal Reserve is proposing to limit the aggregate amount of a bank holding company's cumulative perpetual preferred stock, trust preferred securities and other minority interests to 25% of a company's core capital elements, net of goodwill. Current regulations do not require the deduction of goodwill. The proposal also provides that amounts of qualifying trust preferred securities and certain minority interests in excess of the 25% limit may be included in Tier 2 capital but would be limited, together with subordinated debt and limited-life preferred stock, to 50% of Tier 1 capital. The proposal provides a three-year transition period for bank holding companies to meet these quantitative limitations. At this time, it is not possible to predict the impact that this proposal would have on the Company.

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

GENERAL

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

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residential mortgage loans in its market areas. The Company also invests in investment securities and various types of short term liquid assets.

On October 9, 2003, the Company merged with Aviston Financial Corporation. At the time of the merger, Aviston Financial had approximately \$98.0 million in total assets and operated three locations in southwestern Illinois, including its newest office in Fairview Heights, which is 10 miles from downtown St. Louis. Subsequent to the merger, the remaining corporation changed its name to Centrue Financial Corporation. On October 17, 2003, the subsidiary banks were merged to form Centrue Bank, a state-chartered commercial bank. On March 5, 2004, the Company acquired Parish Bank and Trust Company in Momence, Illinois, which was merged into Centrue Bank. At the time of the acquisition, Parish Bank had approximately \$21.5 million in total assets. The Company has approximately 168 full time equivalent employees.

FINANCIAL CONDITION

The Company's total assets were \$613.9 million at June 30, 2004, an increase of \$4.7 million or 0.8%, from \$609.2 million at December 31, 2003. Fluctuations in asset accounts were represented by an increase in investment securities of \$24.7 million, net loans and loans held for sale of \$10.4 million, goodwill of \$1.0 million, nonmarketable equity securities of \$808,000 and intangible assets of \$667,000. These increases were partially offset by a decrease in cash and cash equivalents of \$33.4 million.

Cash and cash equivalents decreased \$33.4 million or 73.1% to \$12.2 million from \$45.6 million. Investment securities increased \$24.7 million or 27.9% to \$113.3 million from \$88.6 million. The increase in investment securities and decrease in cash and cash equivalents was primarily as a result of the Company repositioning lower yielding liquid investments such as federal funds sold to higher yielding investment securities. This repositioning has had a positive impact on the Company's net interest margin.

Net loans, including loans held for sale increased \$10.4 million or 2.4% to \$436.2 million from \$425.8 million. The increase in loans was primarily due to the Company adding several experienced commercial loan officers in the latter part of 2003 and first part of 2004. The addition of these officers and the Company's concentration of efforts on growing the commercial loan portfolio has contributed to our increase in loans.

Goodwill increased \$1.0 million or 8.9% to \$12.4 million from \$11.4 million. Intangible assets increased \$667,000 or 54.3% to \$1.9 million from \$1.2 million. The increase in goodwill and intangible assets was a result of the acquisition of Parish Bank.

Nonmarketable equity securities increased \$808,000 or 24.5% to \$4.1 million from \$3.3 million. The increase in nonmarketable equity securities was primarily due to the deconsolidation of the Company's trust preferred securities which resulted in an increase of other assets of \$620,000.

Deposits increased \$6.6 million or 1.4% to \$501.0 million from \$494.4 million. The net increase in deposits was primarily attributable to the acquisition of Parish Bank and was partially offset by a reduction in certificates of deposit as a result of our more disciplined pricing strategy on deposits. The Company used a portion of the funds from the Parish Bank deposits to repay higher rate borrowings and reduce high rate certificates of deposit. Borrowings decreased \$10.8 million or 19.9% to \$43.6 million from \$54.4 million. The decrease in borrowings was due to borrowings (which had a rate of 4%) that matured late in March, 2004.

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Junior subordinated debt owed to unconsolidated trusts (trust preferred securities) increased \$10.0 million or 100.0% to \$20.0 million from \$10.0 million. In April, 2004, the Company issued \$10.0 million in trust preferred securities which have been used for repurchases of common stock and other corporate purposes.

Stockholders' equity decreased \$1.8 million or 4.0% to \$43.8 million from \$45.6 million at December 31, 2003. Equity per share of common stock decreased by \$0.18 to \$17.33 at June 30, 2004 from \$17.51 at December 31, 2003. The decrease in stockholders' equity and equity per share was due to the Company repurchasing 80,000 shares of common stock in the second quarter of 2004, at a total cost of \$2.2 million.

ASSET QUALITY

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

During the second quarter, total nonperforming loans increased \$5.6 million due to an increase of non-accrual loans. The increase was primarily due to two large commercial borrowers. The loans to one of these borrowers totaling \$2.9 million matured at year end 2003. During the first quarter of 2004, the Company had ongoing negotiations to resolve and extend the maturity but was unable to achieve a satisfactory agreement. During the second quarter of 2004, when negotiations indicated that full collection of principal and interest was questionable, the Company decided to place the loans on nonaccrual status until final resolution. The Company expects a resolution in the second half of 2004 and does not anticipate a material loss. The second borrower has a \$2.0 million commercial loan that was previously on the Company's watch list, although the borrower continued to make payments as agreed. This borrower filed bankruptcy and ceased making loan payments during the second quarter of 2004. Management is in various stages of workout or liquidation with the remaining nonperforming loans.

	June 30	December	
	2004	31	Change
	2004	2003	
	2004	2003	Change
	(dollars in thousands)		
Non-accruing loans	\$ 9,129	\$ 3,248	\$5,881
Accruing loans delinquent 90 days or more	2,000	2,232	(232)
	<hr/>	<hr/>	<hr/>
Total nonperforming loans	11,129	5,480	5,649
Foreclosed assets	681	319	362
Troubled debt restructuring	46	281	(235)
	<hr/>	<hr/>	<hr/>
Total nonperforming assets	\$11,856	\$ 6,080	\$5,776
	<hr/>	<hr/>	<hr/>

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Allowance for loan losses to total loans	1.72%	1.72%
Allowance for loan losses to nonperforming loans	68.52%	136.34%
Nonperforming loans to total loans	2.51%	1.26%
Nonperforming assets to total loans and foreclosed property	2.67%	1.40%
Nonperforming assets to total assets	1.93%	1.00%

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One measure of the adequacy of the allowance for loan losses is the ratio of the allowance for loan losses to total loans. The ratio of the allowance for loan losses to total loans was 1.72% at both June 30, 2004 and December 31, 2003. The ratio of the allowance for loan losses to non-performing loans decreased to 68.5% as of June 30, 2004 compared to 136.3% at December 31, 2003. The decrease in this ratio, which excludes foreclosed assets and restructured troubled debt, was the result of the increase of \$5.6 million of nonperforming loans.

Total classified loans at June 30, 2004 decreased to \$21.7 million compared to \$25.1 million at December 31, 2003. During 2003, the Company adopted a new loan policy and implemented new loan approval, documentation and monitoring processes. The Company also recruited and employed an experienced commercial lending team including three new regional presidents, each of whom is an experienced commercial lender, as well as three other seasoned commercial lenders. These initiatives have had a positive impact on the monitoring of the loan portfolio. The Company will continue to attempt to improve the loan monitoring processes.

The Company recognized charge offs in the amount of \$508,000 and \$707,000 during the second quarter and first six-months of 2004 and \$3.1 million for the second quarter and first six-months of 2003. The Company had recoveries of \$106,000 for the second quarter and first six-months of 2004 and no recoveries for 2003. The provision for loan losses was \$300,000 and \$600,000 for the second quarter and first six months of 2004, compared to \$3.7 million for the second quarter and first six months of 2003. The provision for loan losses represents management's judgment of the cost associated with credit risk inherent in the loan portfolio. Factors which influence management's determination of the provision for loan losses include, among other things, size and quality of the loan portfolio measured against prevailing economic conditions, regulatory guidelines, a review of individual loans and historical loan loss experience. The decreases in the provision for loan losses for the quarter and six-month period ending June 30, 2004 compared to the same periods of 2003 were primarily reflective of lower net charge-offs. In addition, the Company acquired \$156,000 of allowance for loan losses with the Parish acquisition in the first quarter of 2004.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses in the loan portfolio. Management's methodology to determine the adequacy of the allowance for loan losses considers specific credit reviews, past loan loss experience, current economic conditions and trends, and the volume, growth and composition of the loan portfolio. Based upon the Company's quarterly analysis of the adequacy of the allowance for loan losses, considering remaining collateral of loans with more than a normal degree of risk, historical loan loss percentages and economic conditions, it is management's belief that the allowance for loan losses at June 30, 2004 was adequate. However, there can be no assurance that the allowance for loan losses will be adequate to cover all losses.

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

Mortgage Servicing Rights - The Company recognizes as a separate asset the rights to service mortgage loans for others. The value of mortgage servicing rights is amortized in

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relation to the servicing revenue expected to be earned. Mortgage servicing rights are periodically evaluated for impairment based upon the fair value of those rights. Estimating the fair value of the mortgage servicing rights involves judgment, particularly of estimated prepayments speeds of the underlying mortgages serviced. Net income could be affected if management's assumptions and estimates differ from actual prepayments.

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

RESULTS OF OPERATIONS

SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

For the second quarter ended June 30, 2004, net income increased to \$1.2 million from a net loss of \$1.5 million for the same period in 2003. Net income for the six-months ended June 30, 2004 increased to \$2.0 million from a net loss of \$132,000 for the same period in 2003. Return on average assets for the second quarter and first six months of 2004 was 0.77% and 0.67%. Return on average equity for the second quarter and first six months of 2004 was 10.55% and 8.96%, compared to (18.53)% and (0.76)% for 2003.

The Company's results for the second quarter of 2004 reflected the impact of a partial reversal of a valuation allowance for mortgage servicing rights of \$50,000. The reversal is consistent with internal policies and past practice. The Company also recognized a gain of \$127,000 from the sale of its credit card portfolio during the second quarter of 2004.

The Company's results for the quarter and six-months ended June 30, 2003, included loan loss provisions in the amount of \$3.7 million compared to provisions of \$300,000 and \$600,000 for the three and six-month periods in 2004. The three months ended June 30, 2003 also included a charge of \$281,000, which reflected a decrease in the value of mortgage servicing rights and \$225,000 for severance and expenses associated with the termination of employment of three senior executives.

Net interest income for the three month and six month periods increased \$1.0 million and \$1.6 million or 27.5% and 20.8% from 2003. Interest income increased by \$632,000 and \$665,000 for the three month and six month periods. The net interest margin for the second quarter increased to 3.40% compared to 3.09% for 2003. For the six-month periods, the net interest margin increased to 3.36% compared to 3.18% for 2003. The increase in the net interest margin was primarily a result of initiatives that were implemented throughout the first quarter of 2004 and have continued through the second quarter of 2004. Lower earning assets, such as federal funds sold, were replaced with higher yielding loans and tax-advantaged investments. In addition, the Company decreased rates on deposit accounts to be more in line with local competition and repaid some high rate borrowings. With this decrease in interest rates during the quarter, the Company lowered its cost of funds for deposits and borrowings.

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

	Three Months Ended June 30,					
	2004			2003		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable (1) (3)	\$438,137	\$ 6,154	5.65%	\$354,284	\$ 5,621	6.36%
Investments securities (2) (3)	113,591	1,123	3.98%	71,645	806	4.51%
Other interest-earning assets	6,352	18	1.14%	46,921	137	1.17%
FHLB stock	3,455	52	6.03%	2,839	77	10.88%
Total interest-earning assets	561,535	7,347	5.26%	475,689	6,641	5.60%
Other assets	52,869			42,465		
Total assets	\$614,404			\$518,154		
Interest-bearing liabilities:						
Certificate accounts	\$262,945	1,600	2.45%	\$232,301	1,772	3.06%
Savings deposits	93,725	136	0.58%	76,587	244	1.28%
Demand and NOW deposits	95,362	182	0.77%	81,539	305	1.50%
Borrowings	59,332	685	4.64%	58,850	658	4.48%
Total interest-bearing liabilities	511,364	2,603	2.05%	449,277	2,979	2.66%
Non-interest bearing demand deposits	52,751			32,319		
Other liabilities	5,357			4,021		
Total liabilities	569,472			485,617		
Stockholders equity	44,932			32,537		
Total liabilities and stockholders equity	\$614,404			\$518,154		

	<u> </u>		<u> </u>
Net interest income	\$ 4,744		\$ 3,662
	<u> </u>		<u> </u>
Net interest rate spread		3.21%	2.94%
Net earning assets	\$ 50,171		\$ 26,412
	<u> </u>		<u> </u>
Net yield on average interest-earning assets (net interest margin)		3.40%	3.09%
Average interest-earning assets to average interest-bearing liabilities	109.81%		105.88%

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

For the second quarter ended June 30, 2004, tax equivalent interest income increased \$707,000, to \$7.3 million. The increase was primarily attributable to an increase in average earning assets, partially offset by a decrease in interest rates. Average earning assets increased \$85.8 million to \$561.5 million from \$475.7 million in 2003. The average tax equivalent rate earned on earning assets decreased 34 basis points to 5.26% from 5.60%. The increase in the average balance of interest-earning assets was primarily due to earning assets

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acquired in the Aviston Financial and Parish Bank acquisitions. The decrease in the yield earned on interest-earning assets was the result of the gradual repricing of loans and investments to lower interest rates throughout 2003 and the first two quarters of 2004.

Interest expense in the second quarter decreased \$376,000 to \$2.6 million from \$3.0 million in 2003. The decrease was primarily attributable to a decrease in the rate paid on average interest bearing liabilities, partially offset by an increase in the average balance of interest bearing liabilities. Average interest-bearing liabilities increased \$62.1 million to \$511.4 million from \$449.3 million. The rate paid on interest bearing liabilities decreased 61 basis points to 2.05% from 2.66% in 2003. The increase in average interest-bearing liabilities was primarily attributable to interest-bearing liabilities assumed in the Aviston Financial and Parish Bank acquisitions. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates and continuing improvement in the deposit mix, with a significant growth of noninterest deposits and a lower percentage of our deposits consisting of certificate of deposit accounts.

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

	Six Months Ended June 30,					
	2004			2003		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Loans receivable (1) (3)	\$434,175	\$12,466	5.77%	\$363,360	\$11,832	6.57%
Investments securities (2) (3)	104,022	2,099	4.06%	76,164	1,781	4.72%
Other interest-earning assets	20,073	94	0.94%	43,347	240	1.12%
FHLB stock	3,389	108	6.43%	2,813	121	8.67%
	561,659	14,767	5.29%	485,684	13,974	5.80%
Total interest-earning assets						
Other assets	50,953			42,114		
	\$612,612			\$527,798		
Interest-bearing liabilities:						
Certificate accounts	\$267,492	3,358	2.52%	\$239,745	3,846	3.23%
Savings deposits	90,795	284	0.63%	75,127	474	1.27%
Demand and NOW deposits	91,287	375	0.83%	77,797	615	1.59%
Borrowings	60,960	1,379	4.55%	62,886	1,386	4.44%
	510,534	5,396	2.13%	455,555	6,321	2.80%
Total interest-bearing liabilities						
Non-interest bearing demand deposits	51,560			32,933		
Other liabilities	5,008			4,060		
	567,102			492,548		
Total liabilities						
Stockholders equity	45,510			35,250		
	\$612,612			\$527,798		
Total liabilities and stockholders equity						

Net interest income		\$ 9,371		\$ 7,653
		<u> </u>		<u> </u>
Net interest rate spread			3.16%	3.00%
Net earning assets	\$ 51,125		\$ 30,129	
	<u> </u>		<u> </u>	
Net yield on average interest-earning assets (net interest margin)			3.36%	3.18%
Average interest-earning assets to average interest-bearing liabilities		110.01%		106.61%

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

For the six-months ended June 30, 2004, tax equivalent interest income increased \$797,000, to \$14.8 million. The increase was primarily attributable to an increase in average earning assets, partially offset by a decrease in interest rates. Average earning assets increased \$76.0 million to \$561.7 million from \$485.7 million in 2003. The average tax equivalent rate earned on earning assets decreased 51 basis points to 5.29% from 5.80%. The

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increase in the average balance of interest-earning assets was primarily due to earning assets acquired in the Aviston Financial and Parish Bank acquisitions. The decrease in the yield earned on interest-earning assets was the result of the gradual repricing of loans and investments to lower interest rates throughout 2003 and the first six-months of 2004.

Interest expense during the first half of the year decreased \$925,000 to \$5.4 million from \$6.3 million in 2003. The decrease was primarily attributable to a decrease in the rate paid on average interest bearing liabilities, partially offset by an increase in the average balance of interest bearing liabilities. Average interest-bearing liabilities increased \$54.9 million to \$510.5 million from \$455.6 million. The rate paid on interest bearing liabilities decreased 67 basis points to 2.13% from 2.80% in 2003. The increase in average interest-bearing liabilities was primarily attributable to interest-bearing liabilities assumed in the Aviston Financial and Parish Bank acquisitions. The decrease in the average yield on interest-bearing liabilities resulted from decreasing market interest rates and continuing improvement in the deposit mix, with a significant growth of noninterest deposits and a lower percentage of our deposits consisting of certificate of deposit accounts.

The provision for loan losses was \$300,000 and \$600,000 for the second quarter and first six months of 2004, compared to \$3.7 million for the second quarter and first six months of 2003. The decrease in the provision for loan losses was primarily due to a decrease in net charge-offs. Several initiatives to more effectively monitor the risk involved in the loan portfolio were put in place during the latter part of 2003 and have continued in 2004. The amount of the provision for losses on loans is determined through regular review of the various elements of the loan portfolio, and by a review of overall adequacy, based on circumstances and factors known at the time of the review.

Noninterest income was \$1.5 million and \$2.8 million for the quarter and six-months ended June 30, 2004, compared to \$1.1 million and \$2.9 million for the same periods in 2003. The increase in noninterest income for the quarter was primarily due to an increase in fee income of \$598,000, partially offset by a decrease in net gain on sale of loans of \$163,000. The decrease in noninterest income for the six-months ended June 30, 2004 was primarily attributable to the gain on the sale of the Hoopston branch of \$478,000 in 2003 and a decrease in gain on sale of loans of \$439,000. The decreases for the six-month period were partially offset by an increase in fee income of \$857,000, which included a \$50,000 reduction in the valuation allowance for mortgage servicing rights. The decrease in gain on sale of loans for both periods was primarily due to a high volume of refinancings that occurred during the second quarter and first six-months of 2003. Due to the rate structure moving higher in early 2004 and the large amount of loans that refinanced during 2002 and 2003, the amount of refinancings greatly decreased and the majority of the gain on loans sold in the first quarter of 2004 was primarily attributable to new loans. Additionally, during the second quarter of 2004, the Company sold its credit card portfolio and recorded a gain in the amount of \$127,000. The decision to sell the credit card portfolio was made due to the cost related to processing the credit card transactions, loan loss exposure to these unsecured loans and the marginal profitability of carrying and servicing the portfolio. The Company will continue to offer credit card services through an affiliation with a third party. This new arrangement will allow the Company to continue to offer credit card services without the risk and cost associated with the credit card loans while sharing in future revenue. The increase in fee income for both periods was partially due to an increase in fees assessed on customer accounts and transactions to better reflect the competitive environment.

Noninterest expenses were \$4.1 million and \$8.5 million for the quarter and six-months ended June 30, 2004, compared to \$3.6 million and \$7.3 million for the same periods in 2003. Compensation and benefits increased \$239,000 and \$594,000, furniture and equipment expenses increased \$146,000 and \$305,000, and other expenses increased \$135,000 and \$201,000 for the second quarter and the six-months ended June 30, 2004, respectively.

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Compensation and benefits, furniture and equipment and other expenses increased primarily due to the addition of personnel and branches that were added due to the merger with Aviston Financial in the fourth quarter of 2003, Parish Bank in March 2004 and the opening of three new offices within the last three quarters.

Income tax expense increased \$1.5 million and \$1.3 million for the second quarter and six-months ended June 30, 2004 from the same periods in 2003. The increase in income tax expense was due to an increase in income before income taxes from 2003 to 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a certain level of cash and other liquid assets to fund normal volumes of loan commitments, deposit withdrawals and other obligations. The following table summarizes significant contractual obligations and other commitments at June 30, 2004 (in thousands):

Years Ended December 31,	Time Deposits	Junior (1) Subordinated Debt Owed to Unconsolidated Borrowings		Total
		(1)	Trusts	
2004	\$ 83,172	\$ 19,142		\$ 102,314
2005	139,563	14,723		154,286
2006	11,872	8,342		20,214
2007	9,779	450	\$ 10,000	20,229
2008 and thereafter	11,687	905	10,000	22,592
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$256,073	\$ 43,562	\$ 20,000	\$319,635
	<hr/>	<hr/>	<hr/>	<hr/>
Financial instruments whose contract amounts represent credit risk:				
Commitment to originate loans				\$ 17,478
Commitments to extend credit				44,624
Standby letters of credit				2,210
				<hr/>
Total				\$ 64,312
				<hr/>

- (1) Fixed rate callable borrowings are included in the period of their modified duration rather than in the period in which they are due. Borrowings include fixed rate callable advances of \$5.0 million maturing in 2008 and \$4.0 million maturing in 2011. Junior subordinated debt owed to unconsolidated trusts matures in 2032 and 2034 but is callable in 2007 and 2009.

The Company's most liquid assets are cash, cash in banks and highly liquid, short-term investments. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. At June 30, 2004 and December 31, 2003, these liquid assets totaled \$12.2 million and \$45.6 million. Securities available-for-sale may also be utilized to meet liquidity needs. The level of liquid assets at December 31, 2003 was higher than usual due to a number of factors, including sales of loans and higher than expected prepayments on loans and investment securities.

Liquidity management for the Company is both a daily and long-term function of the Company's management strategy. Excess funds are generally invested in short-term investments such as federal funds. In the event that the Company should require funds beyond its ability to generate them internally, additional sources of funds are available, including FHLB advances. At June 30, 2004, the Company had outstanding borrowings totaling \$43.6 million, of which \$31.6 were advances from the FHLB, \$9.2 were funds from securities sold under agreement to repurchase, and \$2.8 million were funds from notes payable.

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At June 30, 2004, the Company had outstanding commitments to originate mortgage loans of \$17.5 million, of which 91% were at fixed interest rates. These commitments provided that the loans would be secured by properties located, for the most part, in the Company's primary market areas. The Company anticipates that it will have sufficient funds available to meet its current loan commitments. Certificates of deposit that were scheduled to mature by December 31, 2004, totaled \$83.2 million. Based upon the historically stable nature of the Company's deposit base, management believes that a significant portion of such deposits will remain with the Company. The Company had unused lines of credit provided to customers of \$44.6 million at June 30, 2004. The Company also had a signed contract to construct a facility in Fairview Heights, Illinois for a total cost of approximately \$4.3 million.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined by the regulations) to average assets (as defined) and Total and Tier I capital (as defined) to risk-weighted assets (as defined). Management believes, as of June 30, 2004, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

As of June 30, 2004, the most recent notification from the Bank's primary regulators, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

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	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of June 30, 2004						
Tier 1 Capital to Average Assets						
Centrue Financial	\$44,573	7.42%	\$24,030	4.00%	N/A	
Centrue Bank	44,484	7.47%	23,822	4.00%	\$29,777	5.00%
Tier I Capital to Risk Weighted Assets						
Centrue Financial	44,573	11.10%	16,058	4.00%	N/A	
Centrue Bank	44,484	11.32%	15,724	4.00%	23,585	6.00%
Total Capital to Risk Weighted Assets						
Centrue Financial	54,917	13.68%	32,115	8.00%	N/A	
Centrue Bank	49,431	12.58%	31,447	8.00%	39,309	10.00%
As of December 31, 2003						
Tier 1 Capital to Average Assets						
Centrue Financial	\$41,893	7.26%	\$23,090	4.00%	N/A	
Centrue Bank	43,944	7.63%	23,038	4.00%	\$28,797	5.00%
Tier I Capital to Risk Weighted Assets						
Centrue Financial	41,893	9.90%	16,925	4.00%	N/A	
Centrue Bank	43,944	10.46%	16,802	4.00%	25,203	6.00%
Total Capital to Risk Weighted Assets						
Centrue Financial	47,173	11.14%	33,850	8.00%	N/A	
Centrue Bank	49,201	11.71%	33,604	8.00%	42,006	10.00%

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ASSET/LIABILITY MANAGEMENT

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

In managing its asset/liability mix, the Company, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preferences, may place somewhat greater emphasis on

maximizing its net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to improve its net income. While the Company does have some exposure to changing interest rates, management believes that the Company is positioned to protect earnings throughout changing interest rate environments.

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

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

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

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

The following table presents the Bank's EVE ratios for the various rate change levels at June 30, 2004 and December 31, 2003:

Changes in Interest Rates	EVE Ratios	
	June 30, 2004	December 31, 2003
300 basis point rise	7.35%	7.87%
200 basis point rise	7.59%	7.94%
100 basis point rise	7.76%	8.13%
Base rate scenario	7.40%	7.45%
100 basis point decline	5.86%	6.08%

The preceding table indicates that in the event of an immediate and permanent increase in prevailing market interest rates, the Bank's EVE ratio, would be expected to increase in all scenarios other than a 300 basis point rise. In the event of an immediate and permanent decrease in prevailing market interest rates, the Bank's EVE ratio would be expected to decrease.

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The EVE increases in a rising rate scenario because the Company is asset sensitive and would have more interest earning assets repricing than interest-bearing liabilities. This effect is increased by periodic and lifetime limits on changes in rate on most adjustable-rate, interest-earning assets. The EVE decreases in the 300 basis point rise scenario due to the extension of the duration on the various loan products which increase the price volatility. The EVE decreases in a falling rate scenario because of the limits on the Company's ability to decrease rates on some of its deposit sources, such as money market accounts and NOW accounts, and by the ability of borrowers to repay loans ahead of schedule and refinance at lower rates.

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

ITEM 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer, Chief Financial Officer and Corporate Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2004. Based on that evaluation, the Company's management, including the Chief Executive Officer, Chief Financial Officer and Corporate Controller, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls.

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CENTRUE FINANCIAL CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

The following table sets forth information about our stock repurchases for the three months ended June 30, 2004:

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
April 1 - April 30, 2004		\$		513,104
May 1 - May 31, 2004	80,000	27.86	80,000	433,104
June 1 - June 30, 2004				433,104
Total	80,000	\$ 27.86	80,000	433,104

(1) The Company originally announced its current stock repurchase program on October 9, 2003, and on April 28, 2004, announced that the Company intended to begin initiating the repurchase of shares under the program. Under the program, the board authorized the purchase of up to 20% of the shares outstanding, or [513,104], and is set to expire in October, 2004. The Company purchased all of the shares listed above on the open market and under the repurchase program.

Item 3. Defaults Upon Senior Securities

None

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

The annual meeting of stockholders of the Company was held on April 23, 2004. At the meeting, stockholders voted to approve the election of Michael A. Griffith to serve as a director of the Company until 2007. Michael J. Hejna will continue to serve as a director until 2005 and Thomas A. Daiber, Mark L. Smith and Wesley E. Walker will continue to serve as directors until 2006. An amendment to increase the number of shares in the Company's 2003 Stock Incentive Plan was approved. Stockholders also voted to approve the appointment of McGladrey & Pullen LLP as the Company's auditors for the year ending December 31, 2004.

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

1. For the election of one (1) director of the Company to serve until 2007:

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NOMINEE: Michael A. Griffith

FOR	WITHHELD
2,105,906	246,137

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

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

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

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
2,224,858	26,240	100,945	0

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

- 10.1 Indenture between Centrue Financial Corporation and U.S. Bank National Association, dated April 22, 2004.
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.3 Certification of Corporate Controller Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of Corporate Controller Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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b. Reports on Form 8-K

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

On July 23, 2004, the Company filed a report on Form 8-K pursuant to Item 12 disclosing its financial results for the quarter ended June 30, 2004.

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CENTRUE FINANCIAL CORPORATION

SIGNATURES

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

CENTRUE FINANCIAL CORPORATION
Registrant

Date: August 12, 2004

/s/ THOMAS A. DAIBER

President and Chief Executive Officer

Date: August 12, 2004

/s/ JAMES M. LINDSTROM

Chief Financial Officer and
Senior Vice President

Date: August 12, 2004

/s/ JOHN A. BETTS

Vice President and
Corporate Controller