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CENTRUE FINANCIAL CORP
Form 10-Q
November 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008

Commission File Number: 0-28846

Centrue Financial Corporation
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding at November 7, 2008
-----	-----
Common Stock, Par Value \$1.00	6,028,491

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CENTRUE FINANCIAL CORPORATION
FORM 10-Q INDEX
SEPTEMBER 30, 2008

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CENTRUE FINANCIAL CORPORATION
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

September 30, D
2008

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ASSETS

Cash and cash equivalents	\$ 40,642	\$
Securities available-for-sale	205,549	
Restricted securities	10,411	
Loans	973,933	
Allowance for loan losses	(11,461)	

Net loans	962,472	
Cash value of life insurance	27,662	
Mortgage servicing rights	2,932	
Premises and equipment, net	32,887	
Goodwill	24,494	
Intangible assets, net	9,524	
Other real estate	12,445	
Other assets	13,164	

Total assets	\$ 1,342,182	\$
	=====	==

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Deposits		
Non-interest-bearing	\$ 106,863	\$
Interest-bearing	901,862	

Total deposits	1,008,725	
Federal funds purchased and securities sold under agreements to repurchase	32,697	
Federal Home Loan Bank advances	131,293	
Notes payable	20,655	
Series B mandatory redeemable preferred stock	831	
Subordinated debentures	20,620	
Other liabilities	9,113	

Total liabilities	1,223,934	

Commitments and contingent liabilities	--	
Stockholders' equity		
Series A convertible preferred stock (aggregate liquidation preference of 2,762)	500	
Common stock, \$1 par value, 15,000,000 shares authorized; 7,453,555 and 7,438,110 shares issued at September 30, 2008 and December 31, 2007	7,454	
Surplus	71,435	
Retained earnings	64,931	
Accumulated other comprehensive income (loss)	(3,652)	

Treasury stock, at cost 1,425,064 shares at September 30, 2008 and 1,366,564 at December 31, 2007	(22,420)	

Total stockholders' equity	118,248	

Total liabilities and stockholders' equity	\$ 1,342,182	\$
	=====	==

See Accompanying Notes to Unaudited Financial Statements

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1.

CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30, 2008
	2008	2007	
Interest income			
Loans	\$ 15,316	\$ 18,000	\$ 48,000
Securities			
Taxable	2,150	3,071	6,000
Exempt from federal income taxes	351	378	1,000
Federal funds sold and other	14	112	100
Total interest income	17,831	21,561	56,100
Interest expense			
Deposits	6,225	9,734	21,000
Federal funds purchased and securities sold under agreements to repurchase	189	536	1,000
Federal Home Loan Bank advances	838	636	2,000
Series B mandatory redeemable preferred	12	12	100
Subordinated debentures	322	395	1,000
Notes payable	263	164	1,000
Total interest expense	7,849	11,477	26,000
Net interest income	9,982	10,084	29,000
Provision for loan losses	1,225	--	2,000
Net interest income after Provision for loan losses	8,757	10,084	26,000
Noninterest income			
Service charges	1,980	1,725	5,000
Trust income	176	243	1,000
Mortgage banking income	349	399	1,000
Brokerage commissions and fees	73	416	1,000
Bank owned life insurance	260	252	1,000
Securities gains (losses), net	--	--	1,000
Gain on sale of OREO	122	459	1,000
Gain (loss) on sale of other assets	(33)	(4)	1,000
Other income	667	877	2,000
Total noninterest income	3,594	4,367	12,000
Noninterest expenses			

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Salaries and employee benefits	3,554	3,891	12
Occupancy	761	1,028	2
Furniture and equipment	649	616	2
Marketing	355	325	
Supplies and printing	101	137	
Telephone	172	198	
Data Processing	378	308	
Amortization of intangible assets	488	562	2
Other expenses	1,664	1,566	5
	-----	-----	-----
	8,122	8,631	27

See Accompanying Notes to Unaudited Financial Statements

2.

CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nin S
	2008	2007	2008
	-----	-----	-----
Income before income taxes	4,229	5,820	11
Income taxes	1,430	1,982	4
	-----	-----	-----
Net income	\$ 2,799	\$ 3,838	\$ 7
	=====	=====	=====
Preferred stock dividends	52	52	
	-----	-----	-----
Net income for common stockholders	\$ 2,747	\$ 3,786	\$ 7
	=====	=====	=====
Basic earnings per common share	\$ 0.46	\$ 0.60	\$
	=====	=====	=====
Diluted earnings per common share	\$ 0.46	\$ 0.60	\$
	=====	=====	=====
Total comprehensive income:			
Net income	\$ 2,799	\$ 3,838	\$ 7
Change in unrealized gains (losses) on available for sale securities	(514)	2,008	(7
Tax effect	(199)	778	(2
	-----	-----	-----
Total comprehensive income (loss), net of tax	(315)	1,230	(4
	-----	-----	-----
Total comprehensive income	\$ 2,484	\$ 5,068	\$ 3
	=====	=====	=====

See Accompanying Notes to Unaudited Financial Statements

3.

CENTRUE FINANCIAL CORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (IN THOUSANDS)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net Income	\$ 7,949	\$ 8
Adjustments to reconcile net income to Net cash provided by operating activities		
Depreciation	2,157	1
Amortization of intangible assets	2,172	1
Amortization of mortgage servicing rights, net	370	
Amortization of bond premiums, net	386	
Share based compensation	318	
Provision for loan losses	2,857	
Provision for deferred income taxes	5,113	(3
Earnings on bank-owned life insurance	(767)	
Securities losses/(gains), net	(848)	
(Gain) loss on sale of OREO	(360)	(1
(Gain) loss on sale of loans	(904)	
(Gain) on sale of branches	(1,107)	
Loss related to sale of Wealth Management	340	
Proceeds from sales of loans held for sale	61,394	62
Origination of loans held for sale	(60,907)	(65
Change in assets and liabilities		
(Increase) decrease in other assets	(5,424)	5
Increase (decrease) in other liabilities	687	2
Net cash provided by (used in) operating activities	13,426	10
Cash flows from investing activities		
Securities available-for-sale		
Proceeds from maturities and paydowns	113,170	35
Proceeds from sales	258	2
Purchases	(86,848)	(4
Net decrease (increase) in loans	(70,341)	(101
Purchase of premises and equipment	(202)	(1
Proceeds from sale of OREO	10,408	6
Purchase of Missouri Bank charter	--	
Sale of Branches, net of premium received	(19,498)	
Net cash provided by (used in) investing activities	(53,053)	(63
Cash flows from financing activities		
Net increase (decrease) in deposits	27,924	37
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(12,240)	15

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Repayment of advances from the Federal Home Loan Bank	(494,322)	
Proceeds from advances from the Federal Home Loan Bank	504,000	17
Payments on notes payable	(3,397)	
Proceeds from notes payable	10,250	3
Dividends on common stock	(2,477)	(2)
Dividends on preferred stock	(156)	
Proceeds from exercise of stock options	233	
Purchase of treasury stock	(1,174)	(4)
	-----	-----
Net cash provided by (used in) financing activities	28,641	67
	-----	-----
Net increase (decrease) in cash and cash equivalents	(10,986)	14
Cash and cash equivalents		
Beginning of period	51,628	40
	-----	-----
End of period	\$ 40,642	\$ 55
	=====	=====

Supplemental disclosures of cash flow information

Cash payments for		
Interest	\$ 28,958	\$ 31
Income taxes	4,017	
Transfers from loans to other real estate owned	19,709	7

See Accompanying Notes to Unaudited Financial Statements

4.

CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 1. Summary of Significant Accounting Policies

Centrue Financial Corporation (the "Company") is a bank holding company organized under the laws of the State of Delaware. 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 Illinois down to the metropolitan St. Louis area. These services include demand, time, and savings deposits; lending; mortgage banking; 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 (the "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 unaudited interim consolidated financial statements of Centrue Financial Corporation have been prepared in accordance with U.S. generally

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accepted accounting principles and with the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all normal and recurring adjustments which are necessary to fairly present the results for the interim periods presented have been included. The preparation of financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The allowance for loan losses, carrying value of goodwill, value of mortgage servicing rights, deferred taxes, and fair values of financial instruments are particularly subject to change. Actual results could differ from those estimates. Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

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.

For further information with respect to significant accounting policies followed by the Company in the preparation of its consolidated financial statements, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The annualized results of operations during the three and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the year ending December 31, 2008. All financial information is in thousands (000s), except shares and per share data.

5.

CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 2. Earnings Per Share

Basic earnings per share for the three and nine months ended September 30, 2008 and 2007 were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share for the three and nine months ended September 30, 2008 and 2007 were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the stock options. Computations for basic and diluted earnings per share are provided below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic Earnings Per Common Share				
Net income for common shareholders	\$ 2,747	\$ 3,786	\$ 7,793	\$ 10,000
Weighted average common shares outstanding	6,028	6,322	6,036	6,322
Basic earnings per common share	\$ 0.46	\$ 0.60	\$ 1.29	\$ 1.58

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Diluted Earnings Per Common Share				
Weighted average common shares outstanding	6,028	6,322	6,036	
Add: dilutive effect of assumed exercised stock options	2	36	15	
	-----	-----	-----	-----
Weighted average common and dilutive potential shares outstanding	6,030	6,358	6,051	
	=====	=====	=====	=====
Diluted earnings per common share	\$ 0.46	\$ 0.60	\$ 1.29	\$
	=====	=====	=====	=====

There were approximately 611,738 and 244,200 options outstanding for the three months ended September 30, 2008 and 2007, respectively that were not included in the computation of diluted earnings per share. There were approximately 523,300 and 276,200 options outstanding for the nine months ended September 30, 2008 and 2007, respectively that were not included in the computation of diluted earnings per share. These options were antidilutive since the exercise prices were greater than the average market price of the common stock.

Note 3. Securities

The primary strategic objective related to the Company's \$215,960 investment securities portfolio is to assist with liquidity and interest rate risk management. Of the Company's securities, \$205,549 are classified as available-for-sale and are carried at fair value. The Company does not have any securities classified as trading or held-to-maturity.

The following table describes the fair value, gross unrealized gains and losses of securities available-for-sale at September 30, 2008 and December 31, 2007, respectively:

	September 30, 2008			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	P
	-----	-----	-----	-----
U.S. government agencies	\$ 17,193	\$ 380	\$ --	
States and political subdivisions	39,911	515	(244)	
Mortgage-backed securities of U.S. government sponsored entities	101,747	350	(401)	
Collateralized mortgage obligations	21,248	21	(493)	
Equity securities	1,649	110	(12)	
Investment in Trust Preferred instruments	21,910	--	(6,092)	
Corporate	1,891	--	(96)	
	-----	-----	-----	-----
	\$ 205,549	\$ 1,376	\$ (7,338)	
	=====	=====	=====	=====

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(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 3. Securities (continued)

	December 31, 2007			P
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government agencies	\$ 103,624	\$ 1,415	\$ (14)	
States and political subdivisions	41,561	501	(13)	
Mortgage-backed securities of U.S. government sponsored entities	47,784	287	(106)	
Collateralized mortgage obligations	24,077	68	(100)	
Equity securities	1,601	105	--	
Investment in Trust Preferred instruments	17,273	--	(609)	
Corporate	2,741	9	(10)	
	\$ 238,661	\$ 2,385	\$ (852)	

Management does not believe any individual unrealized losses as of September 30, 2008, identified in the preceding tables represent other-than-temporary impairment. These unrealized losses are primarily attributable to changes in the interest rates, general market risk repricing, and illiquidity in the capital markets. The Company has both the intent and ability to hold each of the securities shown in the table for the time necessary to recover its amortized cost. The unrealized loss on the available for sale securities is included, net of tax, in other comprehensive income.

The Company also attempts to minimize any credit risk and avoid investments in sophisticated and complex investment products. The Company does not hold any securities containing sub-prime mortgages or Fannie Mae or Freddie Mac equities.

The amounts below include the activity related to security sales and calls. The activity related to securities available-for-sale were as follows:

	Three Months Ended September 30,		Nine Months Ended September	
	2008	2007	2008	
Proceeds	\$ --	\$ --	\$ 83,897	\$
Realized gains	\$ --	\$ --	\$ 848	\$
Realized losses	\$ --	\$ --	\$ --	\$

All of the activity from the table above was related to calls of securities during the nine month period ended September 30, 2008. The Company has not sold any securities during the period ended September 30, 2008.

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7.

CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 4. Loans

The following table describes the composition of loans by major categories outstanding as of September 30, 2008 and December 31, 2007, respectively:

	September 30, 2008		December 31, 2007	
	\$	%	\$	%
Commercial	\$ 158,180	16.3%	\$ 181,210	
Agricultural	14,667	1.5	21,861	
Real estate:				
Commercial mortgages	424,788	43.5	362,920	
Construction	167,530	17.2	159,274	
Agricultural	17,183	1.8	23,560	
1-4 family mortgages	184,913	19.0	198,208	
Installment	5,877	0.7	8,611	
Other	795	0.0	1,641	
Total loans	973,933	100.0%	957,285	
Allowance for loan losses	(11,461)		(10,755)	
Loans, net	\$ 962,472		\$ 946,530	

The following table presents data on impaired loans:

	September 30, 2008	December 31, 2007
Impaired loans for which an allowance has been provided	\$ 16,058	\$ 16,058
Impaired loans for which no allowance has been provided	1,273	1,273
Total loans determined to be impaired	\$ 17,330	\$ 17,330
Allowance for loan loss for impaired loans included in the allowance for loan losses	\$ 3,006	\$ 3,006

In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, current 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 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 collectability of the loans in its portfolio; incorporating feedback provided by internal loan staff; the independent loan review function; and information provided by regulatory agencies.

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The Company reported loans held for sale of \$2,015 and \$1,598 of September 30, 2008 and December 31, 2007 respectively.

The Company conducts a quarterly evaluation as to the adequacy of the allowance for loan losses. Transactions in the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007 are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Beginning balance	\$ 11,542	\$ 10,828	\$ 10,755	\$ 10,755
Charge-offs	(1,364)	(81)	(2,384)	(2,384)
Recoveries	58	105	233	233
Provision for loan losses	1,225	--	2,857	2,857
Ending balance	\$ 11,461	\$ 10,852	\$ 11,461	\$ 10,852
Period end total loans	\$ 973,933	\$ 933,903	\$ 973,933	\$ 933,903
Average loans	\$ 987,758	\$ 921,608	\$ 999,848	\$ 921,608

8.

CENTRUE FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 4. Loans (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Ratio of net charge-offs to average loans	0.13%	0.00%	0.22%	0.00%
Ratio of provision for loan losses to average loans	0.12	0.00	0.29	0.00
Ratio of allowance for loan losses to period end total loans	1.18	1.16	1.18	1.16
Ratio of allowance for loan losses to total nonperforming loans	91.78	194.72	91.78	194.72
Ratio of allowance for loan losses to average loans	1.16	1.18	1.15	1.18

Note 5. Stock Option Plans

In 1999, the Company adopted the 1999 Option Plan. Under the 1999 Option Plan,

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nonqualified options may be granted to employees and eligible directors of the Company and its subsidiaries to purchase the Company's 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 for grant under this plan.

In April 2003, the Company adopted the 2003 Option Plan. Under the 2003 Option Plan, as amended on April 24, 2007, nonqualified options, incentive stock options, restricted stock 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 Executive and Compensation committee. Pursuant to the 2003 Option Plan, as amended on April 24, 2007, 570,000 shares of the Company's unissued common stock have been reserved 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 209,000 shares remaining for grants under this plan.

The Company's compensation committee awarded 5,000 restricted common stock awards on November 14, 2006 which were available under the restricted stock portion of the plan. The restricted shares were issued out of treasury shares with an aggregate grant date fair value of \$90. The awards were granted using the fair value as the last sale price as quoted on the NASDAQ Stock Market on the date of grant of \$18.03. The awarded shares vest at a rate of 20% of the initially awarded amount per year, beginning on the first anniversary date of the award and are contingent upon continuous service by the recipient through the vesting date. Currently, there are 1,000 shares of the restricted stock that have vested.

9.

CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 5. Stock Option Plans (continued)

A summary of the status of the option plans as of September 30, 2008, and changes during the period ended on those dates is presented below:

	September 30, 2008		
Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Ag In
Outstanding at January 1, 2008	574,024	\$ 18.71	
Granted	138,000	17.96	
Exercised	(15,445)	16.17	
Forfeited	(38,460)	20.60	

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Outstanding at end of period	658,119	\$ 18.72	4.8 years	\$
Vested or expected to vest	648,380	\$ 18.72	4.7 years	\$
Options exercisable at period end	453,919	\$ 18.74	4.3 years	\$

Options outstanding at September 30, 2008 and December 31, 2007 were as follows:

Range of Exercise Prices	Outstanding		Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Number	
September 30, 2008:				
\$ 11.25 - \$ 13.00	46,381	1.8 years	46,381	\$
13.88 - 18.63	257,938	4.8 years	164,938	
19.03 - 23.31	353,800	5.3 years	242,600	
	658,119	4.8 years	453,919	\$
December 31, 2007:				
11.25 - 13.00	46,381	2.6 years	46,381	
13.88 - 18.63	143,443	3.2 years	143,443	
19.03 - 23.31	384,200	5.9 years	260,600	
	574,024	5.0 years	450,424	\$

Information related to the stock option plan during the quarter ended September 30, 2008 and 2007 was as follows:

	September 30, 2008	September 30, 2007
Intrinsic value of options exercised	\$ --	\$ 12
Cash received from option exercises	--	42
Tax benefit realized from option exercises	--	16

The compensation cost that has been charged against income for the stock options portion of the Equity Incentive Plan was \$304 and \$72 for the nine months ended September 30, 2008 and 2007. The compensation cost that has been charged against income for the restricted stock portion of the Equity Incentive Plan was \$14 and \$0 for the nine months ended September 30, 2008 and 2007.

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(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 5. Stock Option Plans (continued)

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. During the period, there were no options granted.

	September 30, 2008	December 31, 2007
	-----	-----
Fair value	\$ --	\$4.41 - 4.65
Risk-free interest rate	--	4.06% - 4.95%
Expected option life (years)	--	6
Expected stock price volatility	--	23.33% - 23.67%
Dividend yield	--	2.57 - 2.64%

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2008 and beyond is estimated as follows:

	Amount

October, 2008 - December, 2008	\$ 48
2009	172
2010	172
2011	160
2012	104
2013	5

Total	\$ 661
	=====

Note 6. Contingent Liabilities and Other Matters

Neither the Company nor its subsidiary is 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.

Note 7. Business Acquisitions and Divestures

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

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

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

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

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CENTRUE FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 8. Segment Information

The Company utilizes a line of business ("LOB") reporting structure. The reportable segments are determined by the products and services offered, primarily distinguished between retail, commercial, treasury, wealth management, and other operations. 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 and holding company services generate revenue in the other operations segment. The "net allocations" line represents the allocation of the costs that are overhead being spread to the specific segments.

The accounting policies used with respect to segment reporting are the same as those described in the summary of significant accounting policies as forth in Note 1. Segment performance is evaluated using net income.

Information reported internally for performance assessment follows.

	Three Months Ended September 30, 2008			
	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management
Net interest income (loss)	\$ 3,437	\$ 6,596	\$ 815	\$ (7)
Other revenue	2,834	259	--	219
Other expense	2,711	599	41	262
Noncash items				
Depreciation	369	2	--	2
Provision for loan losses	--	1,225	--	--
Other intangibles	458	--	--	30
Net allocations	436	2,669	360	182
Income tax expense	758	779	137	(87)
Segment profit (loss)	\$ 1,539	\$ 1,581	\$ 277	\$ (177)
Goodwill	\$ 11,926	\$ 12,405	\$ --	\$ 163
Segment assets	\$ 262,272	\$ 774,190	\$ 247,073	\$ 209

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	Three Months Ended September 30, 2007			
	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management
Net interest income (loss)	\$ 3,080	\$ 6,686	\$ 496	\$ (146)
Other revenue	2,319	1,004	--	664
Other expense	2,361	605	50	485
Noncash items				
Depreciation	423	4	--	3
Provision for loan losses	--	--	--	--
Other intangibles	560	--	--	2
Net allocations	662	2,861	409	207
Income tax expense	460	1,393	12	(59)
Segment profit (loss)	\$ 933	\$ 2,827	\$ 25	\$ (120)
Goodwill	\$ 11,863	\$ 12,339	\$ --	\$ 1,201
Segment assets	\$ 360,840	\$ 710,319	\$ 283,930	\$ 1,573

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CENTRUE FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 8. Segment Information (continued)

	Nine Months Ended September 30, 2008			
	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management
Net interest income (loss)	\$ 10,286	\$ 20,045	\$ 1,780	\$ 351
Other revenue	9,267	893	848	907
Other expense	9,024	2,354	151	908
Noncash items				
Depreciation	1,363	5	--	8
Provision for loan losses	--	2,857	--	--
Other intangibles	1,446	--	--	726
Net allocations	1,266	8,670	1,153	584
Income tax expense	2,130	2,327	437	(319)
Segment profit (loss)	\$ 4,324	\$ 4,725	\$ 887	\$ (649)
Goodwill	\$ 11,926	\$ 12,405	\$ --	\$ 163
Segment assets	\$ 262,272	\$ 774,190	\$ 247,073	\$ 209

Nine Months Ended

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September 30, 2007

	Retail Segment	Commercial Segment	Treasury Segment	Wealth Management
Net interest income (loss)	\$ 11,005	\$ 17,158	\$ 1,340	\$ (52)
Other revenue	7,494	1,848	(26)	1,453
Other expense	8,727	2,283	164	1,283
Noncash items				
Depreciation	1,373	12	1	12
Provision for loan losses	394	(168)	--	--
Other intangibles	1,769	--	--	5
Net allocations	1,664	9,228	1,264	640
Income tax expense	1,509	2,525	(38)	(178)
Segment profit (loss)	\$ 3,063	\$ 5,126	\$ (77)	\$ (361)
Goodwill	\$ 11,863	\$ 12,339	\$ --	\$ 1,201
Segment assets	\$ 360,840	\$ 710,319	\$ 283,930	\$ 1,573

Note 9. Borrowed Funds and Debt Obligations

On March 31, 2008, the Company entered into a new loan agreement with Bank of America which provides for up to an aggregate principal amount of \$35,250 in borrowings. The loan agreement consists of three credit facilities. The first credit facility consists of a \$25,000 secured revolving line of credit which matures in December 2008. The second credit facility consists of a \$250 secured term facility, which will mature in March 2015. The third credit facility consists of \$10,000 in subordinated debt, which also matures in March 2015. The interest rate on the term and subordinated debt credit facilities is three month LIBOR plus 295 basis points. The interest rate on the revolving credit facility is three month LIBOR plus 125 basis points. Repayment of each of the three credit facilities is interest only on a quarterly basis, with the principal amount of the loan due at maturity. The revolving and term credit facilities are secured by a pledge of the stock of Centrue Bank. The subordinated debt credit facility is unsecured and is intended to qualify as tier II capital for regulatory purposes. The loan agreement contains customary covenants, including but not limited to, Centrue Bank's maintenance of its status as well-capitalized, minimum return on average assets on an annual basis of 0.50%, maximum nonperforming assets to primary capital below 20%, and minimum loan loss reserves to total loans of 1.00%. The Company is using these credit facilities for general working capital purposes. The loan agreement contains no penalty for early repayment of either the revolving credit facility or the subordinated debt credit facility. As of September 30, 2008, the outstanding balance on these lines is \$19,865 and the company is in compliance with all covenants.

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CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 10. Fair Value

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

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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 was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued staff position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. In October, 2008 the FASB issued staff position (FSP) 157-3, Determining the Fair Value of a Financial Asset when the Market for that Asset is Not Active. This FSP clarifies the definition of fair market value. The impact of adoption was not material.

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs to reflect a reporting entity's own assumptions about the assumptions that market participants would use to price and asset or liability.

The fair value of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The Level 3 investments consist of Trust Preferred Securities which are issued by financial institutions and insurance companies. Using previously priced Level 2 inputs, the decline in value in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active, allocated market has become comparatively inactive.

The Bank has developed an internal model for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions and insurance companies, are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

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CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Note 10. Fair Value (continued)

	September 30, 2008	Fair Value measurements at September 30 Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	\$ 205,549	\$ --	\$ 183,639	\$ --

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2008:

Beginning balance, January 1, 2008	\$
Total gains or losses (realized/unrealized) included in earnings	
Interest income on loans	
Interest income on securities	
Other changes in fair value	
Gains (losses) on sales of securities	
Included in other comprehensive income	
Purchases, issuances, and settlements	
Transfers into Level 3	\$

No changes in unrealized gains or losses were recorded through earnings for the three and nine month periods ended September 30, 2008.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value measurements at September 30 Using		
	Quoted Prices in Active Markets For Identical	Significant Other Observable	Significant Unobservable

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	September 30, 2008	Assets (Level 1)	Inputs (Level 2)	
	-----	-----	-----	-----
Assets:				
Impaired loans	\$ 13,052	\$ --	\$ 13,052	\$

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$16,058 with a valuation allowance of \$3,006, resulting in an additional provision for loan losses of \$366 for the period. During the quarter the fair value of impaired loans decreased by \$7,718 as it was transferred to other owned real estate.

The majority of our impaired loans are collateralized by real estate. The carrying value for these real estate secured impaired loans was based upon information in independent appraisals obtained on the underlying collateral.

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CENTRUE FINANCIAL CORPORATION
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Note 11. Participation in the Treasury Capital Purchase Program

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the U. S. Secretary of Treasury with broad authority to implement certain actions to help restore stability and liquidity to U. S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program (CPP), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008 and are subject to approval by the Treasury. The CPP provides for a minimum investment of one percent of Risk-Weighted Assets, with a maximum investment equal to the lesser of three percent of Total Risk-Weighted Assets. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. The Company is applying for participation in this program. Participation in the program is not automatic and is subject to approval by the Treasury.

Note 12. Recent Accounting Developments

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting principles. The new standard was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

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In January 2007, the FASB issued Derivatives Implementation Group Issue B40, Application of Paragraph 13 (b) to Securitized Interests in Prepayable Financial Assets (DIG Issue B40). DIG Issue B40 provides an exemption from the embedded derivative test of paragraph 13 (b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. SFAS No. 155 and DIG Issue B40 did not have a material impact on the Company's consolidated financial position or results of operations.

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 contractual terms of the underlying agreement. This issue was effective for fiscal years beginning after December 15, 2007. Due to the adoption of this item, the Company recorded an entry of \$730 to reduce the beginning balance for retained earnings as of January 1, 2008.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value through Earnings ("SAB 109"). Previously, SAB 105, Application of Accounting Principles to Loan Commitments, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB

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CENTRUE FINANCIAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Note 12. Recent Accounting Developments (continued)

109 retains that view. SAB 109 was effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of this standard was not material.

On March 19, 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), which is intended to improve financial reporting for derivative instruments and hedging activities. Additional disclosures will be required that require disclosure of the fair values of derivative instruments and their gains and losses in tabular format. It also requires disclosure of derivatives features that are credit risk-related. These changes will enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. It was effective for financial statements for fiscal years and interim periods beginning after November 15, 2008. The impact of this statement will not have a material effect on the Company's consolidated financial statements.

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CENTRUE FINANCIAL CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Centrue Financial Corporation (the "Company") is a bank holding company organized under the laws of the State of Delaware. The Company provides a full range of products and services to individual and corporate customers extending from the far western and southern suburbs of the Chicago metropolitan area across Central Illinois down to the metropolitan St. Louis area. These products and services include demand, time, and savings deposits; lending; mortgage banking, brokerage, asset management, and trust services. The Company is subject to competition from other financial institutions, including banks, thrifts and credit unions, as well as nonfinancial institutions providing financial services. Additionally, the Company and its subsidiary Centrue Bank (the "Bank") are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

The following discussion provides an analysis of the Company's results of operations and financial condition for the three and nine months ended September 30, 2008 as compared to the same period in 2007. In the opinion of management, all normal and recurring adjustments which are necessary to fairly present the results for the interim periods presented have been included. The preparation of financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

For further information with respect to significant accounting policies followed by the Company in the preparation of its consolidated financial statements, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The annualized results of operations during the three and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the year ending December 31, 2008. All financial information is in thousands (000s), except shares and per share data.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions 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 revenues and expenses during the reporting period. By their nature, changes in these assumptions and estimates could significantly affect the Company's financial position or results of operations. Actual results could differ from those estimates. Those critical accounting policies that are of particular significance to the Company are discussed in Note 1 of the Company's 2007 Annual Report on Form 10-K.

Securities: Available-for-sale securities are those that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity

needs, regulatory capital considerations, and other similar factors. Securities available-for-sale are carried at fair value with unrealized gains or losses, net of the related deferred income tax effect, reported in other comprehensive income. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. Securities are written down to fair value when a decline in fair value is not temporary.

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Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, current 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. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

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.

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.

General

Third Quarter 2008 Highlights:

- o Risk-based capital and tier-1 leverage ratios were at 11.70% and 8.30%, respectively, up from 11.17% and 7.93% that was reported at June 30, 2008.
- o The net interest margin increased 3 basis points to its highest level in four quarters largely due to the prudent management of funding

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costs. The margin was reported at 3.37% as compared to 3.34% recorded in the second quarter 2008 and increased 12 basis points from 3.25% reported in the first quarter 2008.

- o The efficiency ratio dropped to its lowest level in 16 quarters as it improved to 58.85%, a decrease from 59.42% recorded in the third quarter 2007 and 64.76% reported in the second quarter 2008.
- o The loan portfolio increased \$16,600 or 1.7% from year-end 2007. Excluding \$32,300 in loans related to branch sales recorded in the first and second quarters of 2008, loans grew \$48,900 or 5.1% since year-end 2007.
- o As part of an ongoing effort to redeploy capital to more profitable business units, the Company completed the sale of asset management and the brokerage business units. We anticipate completing the sale of the Trust product line during the fourth quarter.
- o Nonperforming assets remained relatively stable from June 30 levels, marginally increasing from \$24,100 or 1.76% of assets recorded at June 30, 2008 to \$24,900 or 1.87% of assets at quarter end.

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CENTRUE FINANCIAL CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Results of Operations

Net Income

Net Income for the third quarter ended September 30, 2008 equaled \$2,799 or \$0.46 per diluted share. Comparatively, net income was \$2,705 or \$0.44 per diluted share for the second quarter of 2008 and \$3,838 or \$0.60 per diluted share in the third quarter of 2007. This represents an increase of 4.5% in diluted earnings per share over second quarter 2008 results and a decrease of 23.3% in diluted earnings per share in comparison to third quarter 2007 results. The decrease, when compared to third quarter 2007, was primarily related to \$591 (\$362, net of tax) in nonrecurring income and no recorded provision to the allowance for loan losses in the third quarter 2007.

For the nine months ended September 30, 2008, net income equaled \$7,949 or \$1.29 per diluted share as compared to \$8,243 or \$1.26 per diluted share in the same period during 2007. This represents an increase of 2.4% in diluted earnings per share.

Return on average assets was 0.83% for the third quarter of 2008 compared to 1.13% for the same period in 2007. Return on average assets was 0.78% for the nine month period ended September 30, 2008 compared to 0.83% for the same period in 2007.

Return on average stockholders' equity was 9.64% for the third quarter of 2008 compared to 12.78% for the same period 2008. Return on average stockholder's equity was 9.04% for the nine month period ended September 30, 2008 compared to 9.29% for the same period in 2007.

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Net Interest Income/ Margin

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 details each category of average amounts outstanding for interest-earning assets and interest-bearing liabilities, average rate earned on all interest-earning assets, average rate paid on all interest-bearing liabilities and the net yield on average interest-earning assets. In addition, the table reflects the changes in net interest income stemming from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to both rate and volume has been allocated to the changes in the rate and the volume on a pro rata basis.

Fully tax equivalent net interest income for the three months ended September 30, 2008 decreased 0.9% to \$10,225 as compared \$10,315 for the same period in 2007. The deterioration of net interest income was due to the decline in the net interest margin.

The net interest margin, on a tax equivalent basis, was 3.37% for the third quarter of 2008 as compared to 3.40% for the same period in 2007. The decline in the net interest margin was related to the Company's asset-sensitivity and the open market interest rate environment.

Between late September 2007 and May 2008, the Federal Open Market Committee (FOMC) reduced rates seven times for a cumulative reduction of 325 basis points. With most of the Company's floating rate loans repricing within 30 days of a rate change, loan yields began to reflect the downward pricing beginning in the fourth quarter of 2007 and continued through the first six months of 2008.

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Most of the corresponding decreases in funding costs did not begin until the first quarter of 2008. However, funding costs typically take 90 to 120 days to reprice. Thus, funding costs continued to lag loan repricing for most of the second quarter of 2008, as market interest rates stabilized. The disparity between repricing of loans and the repricing of funding costs narrowed substantially during the third quarter. Management anticipates that the FOMC's 50-basis-point rate reduction on October 8, and potential further rate cuts, will continue to compress the margin.

Fully tax equivalent net interest income for the nine months ended September 30, 2008 increased 2.8% to \$30,444 as compared to \$29,628 for the same period in 2007. Net interest income increased largely due to strong growth in average earning assets and decreases in rates paid on interest-bearing funding which dropped in response to the current rate environment.

CENTRUE FINANCIAL CORPORATION
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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AVERAGE BALANCE SHEET
 AND ANALYSIS OF NET INTEREST INCOME

For the Three Months Ended September 30,

	2008			2007		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Interest-earning assets						
Interest-earning deposits	\$ 2,179	\$ 2	0.37%	\$ 751	\$ 6	3.11%
Securities						
Taxable	179,204	2,134	4.75	232,740	3,084	5.26
Non-taxable	38,882	548	5.61	40,830	560	5.44
Total securities (tax equivalent)	218,086	2,682	4.89	273,570	3,644	5.28
Federal funds sold	769	12	6.21	8,140	106	5.16
Loans						
Commercial	181,255	2,749	6.03	173,798	3,571	8.15
Real estate	797,900	12,478	6.22	737,008	14,242	7.66
Installment and other	7,841	151	7.67	10,801	223	8.20
Gross loans (tax equivalent)	986,996	15,378	6.20	921,607	18,036	7.76
Total interest- earnings assets	1,208,030	18,074	5.95	1,204,068	21,792	7.18
Noninterest-earning assets						
Cash and cash equivalents	26,357			34,749		
Premises and equipment, net	33,472			35,978		
Other assets	69,965			73,592		
Total nonearning assets	129,794			144,319		
Total assets	\$1,337,824			\$1,348,387		

LIABILITIES & STOCKHOLDERS' EQUITY

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Interest-bearing liabilities							
NOW accounts	\$ 104,196	\$ 274	1.04	\$ 107,173	\$ 409	1.51	
Money market accounts	155,965	886	2.26	123,762	1,230	3.94	
Savings deposits	86,303	59	0.27	94,065	153	0.65	
Time deposits	543,434	5,006	3.67	636,757	7,942	4.95	
Federal funds purchased and repurchase agreements	42,482	189	1.76	48,494	536	4.39	
Advances from FHLB	123,862	838	2.69	57,792	636	4.37	
Notes payable	42,218	597	5.63	32,714	571	6.92	
	-----	-----	----	-----	-----	----	
Total interest- bearing liabilities	1,098,460	7,849	2.84	1,100,757	11,477	4.14	
	-----	-----	----	-----	-----	----	
Noninterest-bearing liabilities							
Noninterest-bearing deposits	113,282			116,705			
Other liabilities	10,561			11,804			
	-----			-----			
Total noninterest- bearing liabilities	123,843			128,509			
	-----			-----			
Stockholders' equity	115,521			119,121			
	-----			-----			
Total liabilities and stockholders' equity	\$1,337,824			\$1,348,387			
	=====			=====			
Net interest income (tax equivalent)		\$ 10,225			\$ 10,315		
		=====			=====		
Net interest income (tax equivalent) to total earning assets			3.37%			3.40%	
			====			====	
Interest-bearing liabilities to earning assets	90.93%			91.42%			
	=====			=====			

- (1) Average balance and average rate on securities classified as available-for-sale is 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; overdraft loans are excluded in the balances.
- (4) Loan fees are included in the specific loan category.

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AVERAGE BALANCE SHEET
AND ANALYSIS OF NET INTEREST INCOME

For the Nine Months Ended September 30,

	2008			2007		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Interest-earning assets						
Interest-earning deposits	\$ 2,668	\$ 11	0.55%	\$ 2,339	\$ 27	1.56%
Securities						
Taxable	183,117	6,666	4.88	243,102	9,584	5.27
Non-taxable	39,134	1,677	5.72	40,936	1,687	5.51
Total securities (tax equivalent)	222,251	8,343	5.01	284,038	11,271	5.31
Federal funds sold	2,543	83	4.34	9,048	353	5.22
Loans						
Commercial	201,767	9,613	6.36	177,030	10,830	8.18
Real estate	787,267	38,681	6.56	698,895	39,535	7.56
Installment and other	9,851	497	6.74	11,553	741	8.57
Gross loans (tax equivalent)	998,885	48,791	6.52	887,478	51,106	7.70
Total interest- earnings assets	1,226,347	57,228	6.23	1,182,903	62,757	7.09
Noninterest-earning assets						
Cash and cash equivalents	29,708			31,618		
Premises and equipment, net	34,442			35,739		
Other assets	69,216			74,181		
Total nonearning assets	133,366			141,538		
Total assets	\$1,359,713			\$1,324,441		

LIABILITIES & STOCKHOLDERS' EQUITY

Interest-bearing liabilities						
NOW accounts	\$ 107,722	\$ 968	1.20	\$ 105,151	\$ 1,305	1.66
Money market accounts	159,126	3,313	2.78	120,846	3,347	3.70
Savings deposits	88,870	262	0.39	99,352	507	0.68
Time deposits	555,681	17,048	4.10	613,642	22,835	4.98
Federal funds purchased and repurchase agreements	44,087	675	2.04	41,898	1,409	4.50

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Advances from FHLB	118,772	2,786	3.13	58,905	1,909	4.33
Notes payable	40,870	1,732	5.66	31,841	1,817	7.63
	-----	-----	----	-----	-----	----
Total interest-bearing liabilities	1,115,128	26,784	3.21	1,071,635	33,129	4.13
	-----	-----	----	-----	-----	----
Noninterest-bearing liabilities						
Noninterest-bearing deposits	116,220			122,957		
Other liabilities	10,882			11,277		
	-----			-----		
Total noninterest-bearing liabilities	127,102			134,234		
	-----			-----		
Stockholders' equity	117,483			118,572		
	-----			-----		
Total liabilities and stockholders' equity	\$1,359,713			\$1,324,441		
	=====			=====		
Net interest income (tax equivalent)		\$ 30,444			\$ 29,628	
		=====			=====	
Net interest income (tax equivalent) to total earning assets			3.32%			3.35%
			=====			=====
Interest-bearing liabilities to earning assets		90.93%			90.59%	
		=====			=====	

- (1) Average balance and average rate on securities classified as available-for-sale is 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 balances; Overdraft loans are excluded in the balances.
- (4) Loan fees are included in the specific loan category.

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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

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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.

Credit quality performance in the third quarter was generally consistent with management's expectations, reflecting the negative impact of the continued economic weakness across our markets. These economic factors influenced the performance of net charge-offs and non-accrual loans, as well as an expected commensurate increase in the provision that increased our allowance for loan losses.

Due largely to the deterioration of the overall economic conditions and workout activities on previously identified relationships (see "Nonperforming Asset" section for further discussion), the Company recorded a \$1,225 provision for loan losses versus no provision in the same quarter of 2007. For the nine months ended September 30, 2008, the Company recorded a \$2,857 provision for loan losses as compared to recognizing a provision of \$226 in the 2007 period.

The following factors have impacted 2008 provision levels:

- o growth in loan portfolio;
- o increase in action list loans since year-end;
- o identifying and addressing problem credits based on the recent deteriorating economic conditions.

Net charge-offs for the third quarter 2008 were \$1,306 or 0.13% of average loans as compared to \$545 or 0.05% reported in the second quarter 2008 and \$(24) in net charge-offs reported in the third quarter 2007. Net charge-offs for the nine months ended September 30, 2008 were \$2,151 or 0.22% of average loans as compared to \$209 or 0.02% of average loans for the comparable period in 2007.

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. See "Nonperforming Assets" and "Other Potential Problem Loans" for further information.

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Noninterest Income

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Service charges	1,980	1,725	5,491	
Trust income	176	243	661	
Mortgage banking income	349	399	1,184	
Brokerage commissions and fees	73	416	241	
Bank owned life insurance (BOLI)	260	252	767	
Securities gains (losses), net	--	--	848	
Gain on sale of OREO	122	459	360	
Gain (loss) on sale of Other Assets	(33)	(4)	1,078	
Other income	667	877	2,194	
Total noninterest income	\$ 3,594	\$ 4,367	\$ 12,824	\$

Noninterest income decreased \$773 during the third quarter 2008 to \$3,594 as compared to \$4,367 for the same period in 2007. Excluding \$89 in net gains on sale of assets and OREO properties from the third quarter 2008 and \$774 in OREO gains and gross fees generated from one U.S. Internal Revenue Code Section 1031 exchange brokerage transaction from the third quarter 2007, noninterest income decreased \$88 or 2.5%. The decrease was primarily the result of a volume related reduction in revenue generated from the mortgage banking division and the sale of the trust and brokerage business lines. These decreases were partially offset by an improvement in overdraft fees received on customer accounts with insufficient funds.

Noninterest income totaled \$12,824 for the nine months ended September 30, 2008, compared to \$11,815 for the same period in 2007. Excluding all net gains on sale of assets, OREO, and net securities gains for both periods, noninterest income decreased \$267 or 2.3%. The change for the nine months ended September 30, 2008 was largely reflective of the same reasons discussed for the third quarter.

Noninterest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Salaries and employee benefits	\$ 3,554	\$ 3,891	\$ 12,876	\$
Occupancy expense, net	761	1,028	2,718	
Furniture and equipment expense	649	616	2,055	
Marketing	355	325	906	
Supplies and printing	101	137	331	
Telephone	172	198	614	
Data processing	378	308	912	
Amortization of intangible assets	488	562	2,172	
Other expenses	1,664	1,566	5,075	

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Total noninterest expense	\$ 8,122	\$ 8,631	\$ 27,659	\$
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Noninterest expense decreased \$509 to \$8,122 for the three months ended September 30, 2008 as compared to \$8,631 for the same period in 2007. Excluding nonrecurring reductions of \$376 in 2008 and an increase of \$19 in 2007, noninterest expense levels decreased \$105 or 1.2%. The decrease was reported across most categories and was predominantly due to the impact of selling four branches during 2008 which lead to reductions in the number of full-time equivalent employees, occupancy, telephone and data line expense.

Noninterest expense totaled \$27,659 for the nine months ended September 30, 2008, decreasing by \$766 or 2.7% from the same period in 2007. Excluding nonrecurring charges of \$1,373 for 2008 and \$819 for 2007, noninterest expense levels decreased \$1,320 or 4.8% for the first nine months of 2008 as compared to 2007. The change for the nine months ended September 30, 2008 was largely reflective of the same reasons discussed for the third quarter.

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 the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Income before income taxes	\$ 4,229	\$ 5,820	\$ 11,997	\$ 13,819
Applicable income taxes	1,430	1,982	4,048	3,819
Effective tax rates	33.8%	34.1%	33.7%	31.7%

The Company recorded an income tax expense of \$1,430 and \$1,982 for the three months ended September 30, 2008 and 2007, respectively. Effective tax rates equaled 33.8% and 34.1% respectively, for such periods. The Company recorded income tax expense of \$4,048 and \$3,819 for the nine months ended September 30, 2008 and 2007, respectively. Effective tax rates equaled 33.7% and 31.7% respectively, for such periods.

The Company's effective tax rate was lower than statutory rates due to several factors. First, the Company derives interest income from municipal securities and loans, which are exempt from federal tax and certain U. S. government agency

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securities, which are exempt from state tax. Also, the Company derives income from bank owned life insurance policies, which is exempt from federal and state tax. The increase in the effective tax rates over the prior year is driven by the higher pretax income and a decline in tax-exempt interest leading to higher federal taxes. In regard to the increased state tax expense, the growth in the Missouri branch and the changes in the Illinois tax code regarding apportionment rules resulted in higher state taxes for the applicable states.

Earnings Review by Business Segment

The Company's internal reporting and planning process focuses on four primary lines of business: Retail, Commercial, Treasury and Wealth Management. See Note 7 of the Notes to Unaudited Consolidated Financial Statements for the presentation of the condensed income statement and total assets for each Segment.

The financial information presented was derived from the Company's internal profitability reporting system that is used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies which have been developed to reflect the underlying economics of the Segments and, to the extent practicable, to portray the Segment as if it operated on a stand alone basis. Thus, each Segment, in addition to its direct revenues and expenses, assets and liabilities, includes an allocation of shared support function expenses. The Retail, Commercial, Treasury, and Wealth Management Segments also include funds transfer adjustments

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to appropriately reflect the cost of funds on loans made and funding credits on deposits generated. Apart from these adjustments, the accounting policies used are similar to those described in Note 1 of the Notes to Consolidated Financial Statements.

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

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

Retail generated \$1,539 of net income in the third quarter of 2008 as compared to \$933 during same period in 2007. Year to date Retail Segment net income was \$4,324 as compared to \$3,063 for the same period in 2007. Retail assets were \$262,272 at September 30, 2008, \$306,156 at December 31, 2007 and \$360,840 as of September 30, 2007.

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For the third quarter of 2008, net income increased due to stronger revenues on electronic banking services, deposit service fees and a gain on sale of OREO was recorded whereas in 2007 a loss was recorded as a valuation adjustment on a property. Additionally, expenses are lower due to reduced salaries and benefits, lower marketing expenditures, lower occupancy expenses and supplies costs declined. These positive variances were slightly offset by higher IT costs, debit card expenses, and other deposit account expenses.

The change in net income for the nine months ended September 30, 2008 was reflective of the same reasons discussed for the third quarter.

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

Commercial had \$1,581 of net income in the third quarter of 2008 as compared to \$2,827 during same period in 2007. Year to date Commercial Segment net income was \$4,725 as compared to \$5,126 for the same period in 2007. Commercial assets were \$774,190 at September 30, 2008, \$741,861 at December 31, 2007 and \$710,319 as of September 30, 2007.

Net income for the third quarter of 2008 decreased as compared to the same period in 2007 due to recording a provision for loan loss of \$1,225 in 2008 while recording no provision in 2007. Additionally, there was a large gain on sale of OREO recorded and service revenue was higher during the third quarter of 2007 leading to a decrease in noninterest income between these periods. Offsetting these negative variances is lower income tax related to lower pre-tax earnings in the third quarter of 2008.

For the nine months ended September 30, 2008, the change in net income was largely due to the items noted above, specifically the higher provision taken as discussed in "Provision for Loan Losses" section.

Treasury Segment. The Treasury Segment ("Treasury") is responsible for managing the investment portfolio and acquiring funding for loan activity. Treasury had a net income of \$277 in the third quarter of 2008 and \$25 during the same period in 2007. Year to date Treasury Segment net income was \$887 as

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compared to a net loss of \$(77) for the same period in 2007. Treasury assets were \$247,073 at September 30, 2008, \$268,484 at December 31, 2007 and \$283,930 as of September 30, 2007.

Treasury's net income for third quarter increased in comparison to 2007 results due to the improvement in the margin attributable to lower funding costs on wholesale funds. Additionally, since assets were lower than in 2007, net allocated expenses were lower due to the decreased asset base. These positive variances were slightly offset by increased tax expenses due to higher pretax income.

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Net income for the first nine months of 2008 increased in comparison to 2007 due to the improved margin on the investment portfolio caused by lower funding costs and due to the net gain on sale of \$848 related to securities being called during the first quarter of 2008. Furthermore, net allocated expenses were lower which is attributed to the decreased asset base. These positive variances were slightly offset by higher income taxes due to higher pretax earnings for the first nine months.

Wealth Management Segment. The Wealth Management Segment ("Wealth") provides trust services, estate administration, financial planning, employee benefit plan administration, asset management, and brokerage transaction services.

Wealth had a loss of \$(177) during the third quarter 2008 as compared to \$(120) in same period in 2007. Year to date Wealth generated a loss of \$(649) as compared to \$(361) for the same period in 2007. Wealth assets were \$209 at September 30, 2008, \$1,289 at December 31, 2007 and \$1,573 as of September 30, 2007. The decline when compared to December 31, 2007 was largely related to \$724 in goodwill impairment taken in the second and third quarters of 2008.

Earnings for the period were worse than previous due to the decline in revenue experienced with the announced sale of the asset management and brokerage product lines which caused production in these areas to decline. This revenue drop was partially offset by a corresponding decrease in expenses. Additionally, a \$30 write-down of goodwill for the trust business line was recorded in the third quarter and a \$29 net loss on the sale of the brokerage line was recorded. The tax benefit was also larger due to the larger loss which offset some of the decline. The results for the first nine months of 2008 decreased over the same period in 2007 due to the write-down of \$724 of goodwill during the first three quarters of 2008. Revenue also declined more than the drop in expenses experienced as discussed above. These negative variances were slightly offset by a higher tax benefit related to the losses experienced during the period.

Financial Condition

General

Following are highlights of the September 30, 2008 balance sheet when compared to December 31, 2007:

Securities. The primary strategic objective of the Company's \$215,960 securities portfolio is to assist with liquidity and interest rate risk management. In managing the security portfolio, the Company minimizes any credit risk and avoids investments in sophisticated and complex investment products. The Company does not hold any securities containing sub-prime mortgages or Fannie Mae or Freddie Mac equities.

As of September 30, 2008, the Company held trust preferred securities with a total book value of \$28,002 and a fair value of \$21,910. Our investments in trust-preferred securities receive principal and interest payments from several pools of subordinated capital debentures with each pool containing issuance by a minimum of 23 banks, or in a few instances capital notes from insurance companies. Each of these securities carries an investment grade rating, and all have met their scheduled interest payments. We presently anticipate the full receipt of both principal and interest in accordance with our original purchase assumptions. The unrealized loss on these securities of \$6,092 reflects the market's temporary negative bias toward any credit instrument other than

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Treasury securities given the current interest rate and liquidity environment. Management believes that the decline in fair market value was attributable to interest rate factors, general market risk repricing, and lack of liquidity in the capital markets verses an underlying collateral or credit quality issues of a particular investment. We do not believe any individual unrealized losses as of September 30, 2008 represent other-than-temporary impairment based on our analysis of EITF 99-20 and the following factors:

- o To date, all scheduled payments have been received.
- o No holdings have been downgraded below investment grade by any of the rating agencies.
- o We have no knowledge that any of our direct investments consists of sub prime loans.
- o We have obtained updated cash flow projections on all of our Trust Preferred issuances. Based on our review of these analyses, these instruments have projected cash flows that sufficiently cover the regularly scheduled payments.
- o The Company has both the intent and ability to hold each of the securities shown in the table for the time necessary to recover its amortized cost.

In the event that the economic downturn continues and exceeds current expectations, there may be concerns with a portion of the underlying credits.

Loans. Outstanding loans totaled \$973,933 at September 30, 2008 which is a modest decrease from the \$1,003,689 recorded at June 30, 2008 and a modest increase from the \$957,285 recorded at December 31, 2007, representing an increase of \$16,648 or 1.7%. The loan growth experienced for the first nine months was largely generated in the St. Louis market and was concentrated in commercial real estate and commercial and industrial lending activities. Excluding \$32,300 in loans related to branch sales recorded in the first and second quarters of 2008, loans grew \$48,900 or 5.1% since year-end 2007. The Company has no direct exposure to subprime mortgages.

Deposit. Total deposits totaled \$1,008,725 at September 30, 2008 compared to \$1,010,723 recorded at June 30, 2008 and \$1,033,022 at December 31, 2007. The decrease from year-end levels was predominantly a shift away from higher costing time deposits. During the third quarter, there was a shift from core deposits due largely to uncertain economic conditions. These funds were replaced with reasonably priced brokered time deposits with short maturities. Excluding \$52,200 in deposits related to branch sales recorded in the first and second quarters of 2008, deposits increased \$27,900 or 2.7% since year-end 2007. This increase was due to an overall increase in core deposits which grew 0.9%.

Nonperforming Assets

If a loan is placed on nonaccrual status, the loan does not generate current period income for the Company. Loans are placed on nonaccrual status when there are serious doubts regarding the collectability of all principal and interest due under the terms of the loans. Amounts received on nonaccrual loans generally

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are applied first to principal and then to interest after all principal has been collected. 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. Other nonperforming assets consist of real estate acquired through loan foreclosures or other workout situations and other assets acquired through repossessions.

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

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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 summarizes nonperforming assets and loans past due 90 days or more for the previous five quarters.

	2008		
	Sep 30,	Jun 30,	Mar 31,
Nonaccrual loans	\$ 12,487	\$ 19,808	\$ 4,057
Loans 90 days past due and still accruing interest	--	--	--
Total nonperforming loans	12,487	19,808	4,057
Other real estate owned	12,445	4,317	1,153
Total nonperforming assets	\$ 24,932	\$ 24,125	\$ 5,210
Nonperforming loans to total end of period loans	1.28 %	1.97 %	0.44 %
Nonperforming assets to total end of period loans	2.56 %	2.40 %	0.57 %
Nonperforming assets to total end of period assets	1.87 %	1.76 %	0.38 %

The level of nonperforming loans at September 30, 2008 decreased to \$12,487

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versus \$19,808 that existed at June 30, 2008 and increased in comparison to the \$4,090 that existed as of December 31, 2007. As previously disclosed in its quarterly report on Form 10-Q for the first quarter 2008 filed on May 9, 2008, the Company continues an ongoing review of its commercial real estate loan portfolio that previously identified two large relationships. Action plans were implemented which resulted in \$20,000 related to these loans being classified as nonperforming assets in the second quarter 2008.

The outstanding loan balance for one relationship, totaling \$16,300, was transferred to other real estate owned during the quarter. The underlying collateral was moved to other real estate owned at a carrying value of \$15,100, and a \$1,200 write-down was taken based on management's analysis of the fair value of the asset at the time of the transfer. Since then, part of the property was sold for \$6,800 in net proceeds, reducing the other real estate owned carrying value to \$8,300. Marketing efforts continue for the remaining parcel.

The second relationship has one parcel that was transferred to other real estate owned with a carrying value of \$3,700. We have entered into a contract to sell this property with a closing expected in the fourth quarter of 2008 with no loss anticipated. The remaining portion of the relationship is a \$7,300 loan which is currently being restructured.

The level of nonperforming loans to total end of period loans was 1.28% at September 30, 2008, as compared to 0.43% at December 31, 2007 and 1.97% at June 30, 2008. The reserve coverage ratio (allowance to nonperforming loans) was reported at 91.78% as of September 30, 2008 as compared to 262.96% as of December 31, 2007 and 58.27% as of June 30, 2008.

Other Potential Problem Loans

The Company has other potential problem loans that are currently performing, but where some concerns exist as to the ability of the borrower to comply with present loan repayment terms. Excluding nonperforming loans and loans that management has classified as impaired, these other potential problem loans totaled \$768 at September 30, 2008 as compared to \$1,485 at December 31, 2007 and \$963 at September 30, 2007. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny and 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.

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Allowance for Loan Losses

At September 30, 2008, the allowance for loan losses was \$11,461 or 1.18% of total loans as compared to \$10,755 or 1.12% at December 31, 2007. In originating loans, the Company recognizes that credit losses will be experienced and the risk of loss will vary with, among other things, the following:

- o general economic conditions;
- o the type of loan being made;

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- o the creditworthiness of the borrower over the term of the loan;
- o in the case of a collateralized loan, the quality of the collateral for such a loan.

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

- o ultimate collectibility of the loans in its portfolio;
- o incorporating feedback provided by internal loan staff;
- o the independent loan review function;
- o results of examinations performed by regulatory agencies.

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

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

- o specific credit allocation established for expected losses resulting from analysis developed through specific credit allocations on individual loans for which the recorded investment in the loan exceeds its fair value;
- o general portfolio allocation based on historical loan loss experience for each loan category;
- o subjective reserves based on general economic conditions as well as specific economic factors in the markets in which the Company operates.

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

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

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. These estimates are reviewed monthly, and as adjustments, either positive or negative, become necessary, a corresponding

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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.

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.

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 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.

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 financing activities offset by those used in investing activities, resulted in a net decrease in cash and cash equivalents of \$10,986 from December 31, 2007 to September 30, 2008.

During the first nine months of 2008, the Company experienced net cash inflows of \$28,641 in financing activities primarily due to an increase in deposits and \$13,426 in operating activities. In contrast, net cash outflows of \$53,053 were used in investing activities largely due to the net growth in loans.

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Contractual Obligations, Commitments, Contingencies, and Off-Balance Sheet Financial Instruments

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 September 30, 2008.

	Payments Due by Period			
	Within 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Contractual Obligations				
Short-term debt	\$ 9,615	\$ --	\$ --	\$ --
Long-term debt	160	2,345	2,285	6,000
Certificates of deposit	496,260	62,653	9,430	--
Operating leases	287	603	613	--
Severance payments	25	--	--	--
Series B mandatory redeemable preferred stock	--	831	--	--
Subordinated debentures	--	--	--	20,000
FHLB advances	98,031	28,200	--	5,000
Total contractual cash obligations	\$ 604,378	\$ 94,632	\$ 12,328	\$ 32,000

	Amount of Commitment Expiration Per Period			
	Within 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Off-Balance Sheet Financial Instruments				
Lines of credit	\$ 195,955	\$ 32,978	\$ 2,144	\$ 25,000
Standby letters of credit	5,626	6,098	--	2,000
Total contractual cash obligations	\$ 201,581	\$ 39,076	\$ 2,144	\$ 28,000

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 September 30, 2008 was \$118,248, a decrease of \$628 or 0.53%, from December 31, 2007. The change in stockholders' equity was largely the result of a decrease in accumulated other comprehensive income due to a reduction in the fair market value of available-for-sales securities, postretirement liability adjustment related to the adoption of FASB Issue No. 06-4 on January 1, 2008 and modest stock repurchase activity transacted in the first quarter 2008. Average quarterly equity as a percentage of average quarterly assets was 8.63% at September 30, 2008, compared to 8.75% at December 31, 2007. Book value per

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common share equaled \$19.53 at September 30, 2008 compared to \$19.50 at December 31, 2007.

The unrealized losses in these trust preferred securities are related to recent events in the market more so than to current levels of interest rates. Recent market events have lowered investor demand for these securities, which has resulted in lower prices, causing these securities to have unrealized losses. As a result of the new FASB Staff Position No. 157-3, issued October 10, 2008, the Company has moved to a Level 3 fair value calculation that includes risk adjustments that market participants would make, including adjustments for credit and liquidity risks. We have not recognized any impairment charges related to our securities portfolio.

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CENTRUE FINANCIAL CORPORATION
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Stock Repurchase

The Company did not repurchase shares of stock during the quarter ended September 30, 2008. The 2006 repurchase program approved on November 13, 2006 authorized the Company to repurchase up to 5% or 370,000 shares of common stock. This plan was completed in the fourth quarter 2007. The 2007 repurchase program approved on July 24, 2007 authorized the Company to repurchase an additional 500,000 shares, or approximately 8% of the Company's currently issued and outstanding shares, in the open market or privately negotiated transactions over an 18 month period commencing immediately following the completion of the 2006 stock repurchase program. The expiration date of this program is January 24, 2009. 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.

Capital Measurements

As discussed in Note 8, the Company's current debt agreements include a covenant that require the Bank to maintain the status of being well capitalized which is a ratio of 10.0% for total risk based capital. The 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 9.9% and 11.8%, respectively, at September 30, 2008. The Company is currently, and expects to continue to be, in compliance with these guidelines.

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

	December 31,		Minimum	Well
Sep 30,	-----		Capital	Capitalized
2008	2007	2006	Ratios	Ratios
-----	-----	-----	-----	-----

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Tier 1 risk-based capital	\$ 108,209	\$ 101,831	\$ 99,869		
Tier 2 risk-based capital	21,461	10,755	10,835		
	-----	-----	-----		
Total capital	\$ 129,670	\$ 112,586	\$ 110,704		
	=====	=====	=====		
Risk-weighted assets	\$1,110,608	\$1,102,602	\$ 926,874		
	=====	=====	=====		
Capital ratios:					
Tier 1 risk-based capital	9.7 %	9.2 %	10.8 %	4.0%	6.0%
Total risk-based capital	11.7 %	10.2 %	11.9 %	8.0%	10.0%
Leverage ratio	8.3 %	7.7 %	7.9 %	4.0%	5.0%

Recent Regulatory and Accounting Developments

See Note 11 to the Unaudited Consolidated Financial Statements for information concerning recent regulatory and accounting developments.

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CENTRUE FINANCIAL CORPORATION
 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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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.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could effect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any forward-looking statements.

Among the factors that could have an impact on the Company's ability to achieve operating results and the growth plan goals are as follows:

- o management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of the Company's net interest income;
- o fluctuations in the value of the Company's investment securities;
- o the Company's ability to ultimately collect on any downgraded loan relationships;
- o the Company's ability to adapt successfully to technological changes to compete effectively in the marketplace;

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- o credit risks and risks from concentrations (by geographic area and by industry) within the Company's loan portfolio and individual large loans;
- o volatility of rate sensitive deposits;
- o operational risks, including data processing system failures or fraud;
- o asset/liability matching risks and liquidity risks;
- o the ability to successfully acquire low cost deposits or funding;
- o the ability to successfully execute strategies to increase noninterest income;
- o the ability to successfully grow non-commercial real estate loans;
- o the ability of the Company to continue to realize cost savings and revenue generation opportunities in connection with the synergies of centralizing operations;
- o the ability to adopt and implement new regulatory requirements as dictated by the SEC, FASB or other rule-making bodies which govern our industry;
- o changes in the general economic or industry conditions, nationally or in the communities in which the Company conducts business.

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CENTRUE FINANCIAL CORPORATION
 ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Management

The Company performs a net interest income analysis as part of its asset/liability management practices. 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. The tables below present the Company's projected changes in net interest income for the various rate shock levels at September 30, 2008 and December 31, 2007, respectively:

	Change in Net Interest Income Over One Year Horizon			
	September 30, 2008		December 31, 2007	
	Change		Change	
	\$	%	\$	%
+200 bp	\$ 710	1.90%	\$ 305	0.74%
+100 bp	520	1.39	509	1.23
Base	--	--	--	--
-100 bp	(714)	(1.91)	(1,410)	(3.41)

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-200 bp (2,801) (7.51) (3,109) (7.51)

As shown above, the Company's model at September 30, 2008, the effect of an immediate 200 basis point increase in interest rates would increase the Company's net interest income by \$710 or 1.90%. The effect of an immediate 200 basis point decrease in rates would decrease the Company's net interest income by \$2,801 or 7.51%.

Management continues to position our balance sheet to maximize the net interest margin. Throughout the year, steps were taken to lower our funding costs in reaction to FOMC rate reductions. The mix of our funding portion of the balance sheet has been adjusted to align it with our asset sensitive portion of the balance sheet to create better spreads in various sectors. With these changes, we have been able to reposition our funding and align it better with the shorter end of the yield curve which minimizes our exposure to the volatility found at the longer end of the yield curve.

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

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CENTRUE FINANCIAL CORPORATION
ITEM 4. CONTROLS AND PROCEDURES
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Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic filings with the Securities and Exchange Commission. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives and, based on the evaluation described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at reaching that level of reasonable assurance.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company's most recently completed fiscal quarter

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that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business the Company may be involved in various legal proceedings from time to time. The Company does not believe it is currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on the Company's financial statements.

Item 1A. Risk Factors

The Company did not experience any material changes in the Risk Factors during the Company's most recently completed fiscal quarter. For specific information about the risks facing the Company refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of the Company's common stock by the Company during the quarter ended September 30, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Shares that May Be Purchased under the Plans
07/01/08 - 07/31/08	--	\$ --	--	--
08/01/08 - 08/31/08	--	\$ --	--	--
09/01/08 - 09/30/08	--	\$ --	--	--
Total (1)	--	\$ --	--	--

(1) The Company repurchased no shares during the quarter ended September 30, 2008. The 2006 repurchase program approved on November 13, 2006 authorized the Company to repurchase up to 5% or 370,000 shares of common stock. This plan was completed in the fourth quarter 2007. The 2007 repurchase program approved on July 24, 2007 authorized the Company to repurchase an additional 500,000 shares, or approximately 8% of the Company's currently issued and outstanding shares, in the open market or privately negotiated transactions over an 18 month period commencing immediately following the completion of the 2006 stock repurchase program. The expiration date of this program is January 24, 2009. 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

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repurchased all shares authorized for repurchase under the program.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

None

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Item 6. Exhibits

Exhibits:

- 31.1 Certification of Thomas A. Daiber, President and Principal Executive Officer, required by Rule 13a - 14(a).
- 31.2 Certification of Kurt R. Stevenson, Senior Executive Vice President and Principal Financial and Accounting Officer required by Rule 13a - 14(a).
- 32.1(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(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 Senior Executive Vice President and Principal Financial and Accounting Officer.

-
- (1) 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.

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SIGNATURES

Pursuant to the requirements 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.

CENTRUE FINANCIAL CORPORATION

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Date: November 7, 2008

By: /s/ Thomas A. Daiber

Thomas A. Daiber
President and Principal Executive
Officer

Date: November 7, 2008

By: /s/ Kurt R. Stevenson

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

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