CENTRUE FINANCIAL CORP
Form 10-Q
May 15, 2012

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 March 31, 2012

Commission File Number: 0-28846

Centrue Financial Corporation

(Exact name of Registrant as specified in its charter)

Delaware	36-3145350
(State or other jurisdiction of incorporation or organization)	(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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S 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	S

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

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 May 15, 2012
Common Stock, Par Value $1.00	6,063,441

Centrue Financial Corporation

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March 31, 2012

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Centrue Financial Corporation

Part I Financial Information

Item 1. Financial Statements

Unaudited Consolidated Balance Sheets

March 31, 2012 and December 31, 2011 (In Thousands, Except Share Data)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$62,544	$69,735
Securities available-for-sale	246,361	228,836
Restricted securities	7,467	9,150
Loans	563,732	582,395
Allowance for loan losses	(20,338)	(21,232)
Net loans	543,394	561,163
Bank-owned life insurance	31,655	31,412
Mortgage servicing rights	2,031	2,089
Premises and equipment, net	23,370	23,754
Other intangible assets, net	5,027	5,264
Other real estate owned	33,501	29,667
Other assets	6,453	6,914
Total assets	$961,803	$967,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest-bearing	$132,163	$134,137
Interest-bearing	711,242	714,501
Total deposits	843,405	848,638
Federal funds purchased and securities sold under agreements to repurchase	16,226	18,036
Federal Home Loan Bank advances	23,057	23,058
Notes payable	10,440	10,440
Series B mandatory redeemable preferred stock	268	268
Subordinated debentures	20,620	20,620
Other liabilities	15,029	14,355
Total liabilities	929,045	935,415
Commitments and contingent liabilities	—	—
Stockholders' equity		

Series A Convertible Preferred Stock (aggregate liquidation preference of $2,762)	500	500
Series C Fixed Rate, Cumulative Perpetual Preferred Stock (aggregate liquidation preference of $32,668)	31,584	31,429
Common stock, $1 par value, 15,000,000 shares authorized; 7,453,555 shares issued at March 31, 2012 and December 31, 2011	7,454	7,454
Surplus	74,561	74,558
Accumulated deficit	(61,236)	(60,064)
Accumulated other comprehensive income	1,772	569
	54,635	54,446
Treasury stock, at cost, 1,390,114 shares at March 31, 2012 and December 31, 2011	(21,877)	(21,877)
Total stockholders' equity	32,758	32,569
Total liabilities and stockholders' equity	$961,803	$967,984

See Accompanying Notes to Unaudited Financial Statements

1.

Centrue Financial Corporation

Unaudited Consolidated Statements Of Income (Loss)

And Comprehensive Income (Loss)

Three Months Ended March 31, 2012 and 2011

(In Thousands, Except Per Share Data)

	Three Months Ended March 31, 2012	2011
Interest income		
Loans	$7,037	$9,281
Securities		
Taxable	830	997
Exempt from federal income taxes	126	215
Federal funds sold and other	39	31
Total interest income	8,032	10,524
Interest expense		
Deposits	1,399	2,487
Federal funds purchased and securities sold under agreements to repurchase	11	11
Federal Home Loan Bank advances	186	412
Series B mandatory redeemable preferred stock	4	4
Subordinated debentures	293	270
Notes payable	96	90
Total interest expense	1,989	3,274
Net interest income	6,043	7,250
Provision for loan losses	1,350	4,250
Net interest income after provision for loan losses	4,693	3,000
Noninterest income		
Service charges	1,049	1,062
Mortgage banking income	487	407
Electronic banking services	532	527
Bank-owned life insurance	243	249
Securities gains	16	—
Total other-than-temporary impairment losses	—	(393)
Portion of loss recognized in other comprehensive income (before taxes)	—	1
Net impairment on securities	—	(392)
Gain on sale of OREO	191	44

Gain on sale of other assets	—	63
Other income	534	164
	3,052	2,124

See Accompanying Notes to Unaudited Financial Statements

2.

Centrue Financial Corporation

Unaudited Consolidated Statements Of Income (Loss)

And Comprehensive Income (Loss)

Three Months Ended March 31, 2012 and 2011

(In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2012	2011
Noninterest expense		
Salaries and employee benefits	3,702	3,633
Occupancy, net	664	720
Furniture and equipment	384	439
Marketing	75	60
Supplies and printing	68	64
Telephone	175	204
Data processing	307	364
FDIC insurance	518	850
Loan processing and collection costs	536	591
OREO valuation adjustment	133	200
Amortization of intangible assets	237	276
Other expenses	1,446	1,399
	8,245	8,800
Income (loss) before income taxes	$(500)	$(3,676)
Income tax expense (benefit)	—	(218)
Net income (loss)	$(500)	$(3,458)
Preferred stock dividends	517	494
Net income (loss) for common stockholders	$(1,017)	$(3,952)
Basic earnings (loss) per common share	$(0.17)	$(0.65)
Diluted earnings (loss) per common share	$(0.17)	$(0.65)
Total comprehensive income (loss):		
Net income (loss)	$(500)	$(3,458)
Change in unrealized gains (losses) on available for sale securities for which a portion of an other-than-temporary impairment has been recognized in earnings, net of reclassifications and tax effect	—	(123)
Change in unrealized gains (losses) on other securities available for sale, net of reclassifications and tax effect	1,219	984

Reclassification adjustment:		
Net impairment loss recognized in earnings	—	392
(Gains) recognized in earnings	(16)	—
Net unrealized gains (loss)	1,203	1,253
Tax expense (benefit)	—	485
Other comprehensive income (loss)	1,203	768
Total comprehensive income (loss)	$703	$(2,690)

See Accompanying Notes to Unaudited Financial Statements

3.

Centrue Financial Corporation

Unaudited Consolidated Statements Of Cash Flows

Three Months Ended March 31, 2012 and 2011 (In Thousands)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities		
Net income (loss)	$(500)	$(3,458)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	430	479
Amortization of intangible assets	237	276
Amortization of mortgage servicing rights, net	153	107
Amortization of bond premiums, net	727	642
Income tax valuation adjustment	94	1,141
Share based compensation	3	29
Provision for loan losses	1,350	4,250
Provision for deferred income taxes	(94)	(1,141)
Earnings on bank-owned life insurance	(243)	(249)
Other than temporary impairment, securities	—	392
OREO valuation allowance	133	200
Securities sale (gains), net	(16)	—
(Gain) on sale of other assets, net	—	(63)
(Gain)on sale of OREO	(191)	(44)
(Gain) on sale of loans	(417)	(266)
Proceeds from sales of loans held for sale	17,381	12,172
Origination of loans held for sale	(16,368)	(11,931)
Change in assets and liabilities		
(Increase) decrease in other assets	327	1,395
Increase (decrease) in other liabilities	155	(294)
Net cash provided by operating activities	3,161	3,637
Cash flows from investing activities		
Proceeds from paydowns of securities available for sale	12,868	12,538
Proceeds from calls and maturities of securities available for sale	1,270	4,660
Proceeds from sales of securities available for sale	942	—
Purchases of securities available for sale	(32,095)	(32,240)
Redemption of Federal Home Loan Bank stock	1,593	—
Redemption of Federal Reserve Bank stock	110	322
Purchase of Federal Reserve Bank stock	(20)	—
Net decrease (increase) in loans	10,409	209
(Purchase) disposal of premises and equipment	(46)	(59)
Proceeds from sale of OREO	1,661	1,312
Net cash from investing activities	(3,308)	(13,258)

See Accompanying Notes to Unaudited Financial Statements

4.

Centrue Financial Corporation

Unaudited Consolidated Statements Of Cash Flows

Three Months Ended March 31, 2012 and 2011 (In Thousands)

	Three Months Ended March 31, 2012	2011
Cash flows from financing activities		
Net increase (decrease) in deposits	(5,233)	(8,622)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(1,810)	(257)
Repayment of advances from the Federal Home Loan Bank	(1)	(20,000)
Net cash used in financing activities	(7,044)	(28,879)
Net increase (decrease) in cash and cash equivalents	(7,191)	(38,500)
Cash and cash equivalents		
Beginning of period	69,735	82,945
End of period	$62,544	$44,445
Supplemental disclosures of cash flow information		
Cash payments for		
Interest	$1,896	$3,254
Income taxes	10	—
Transfers from loans to other real estate owned	5,414	4,486

See Accompanying Notes to Unaudited Financial Statements

5.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 1. Summary of Significant Accounting Policies

Centrue Financial Corporation is a bank holding company organized under the laws of the State of Delaware. When we use the terms "Centrue," the "Company," "we," "us," and "our," we mean Centrue Financial Corporation, a Delaware corporation, and its consolidated subsidiaries. When we use the term the "Bank," we are referring to our wholly owned banking subsidiary, Centrue Bank. The Company and the Bank provide 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; business and consumer lending; and mortgage banking. Additionally, brokerage, asset management, and trust services are provided to our customers on a referral basis to third party providers. The Company is subject to competition from other financial institutions and nonfinancial institutions providing financial services. Additionally, the Company and the Bank are subject to regulations of certain regulatory agencies and undergo periodic examinations by those regulatory agencies.

Basis of presentation

The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles ("GAAP") and general practice within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates which are particularly susceptible to significant change in the near term relate to the fair value of investment securities and other-than-temporary impairment of securities, the determination of the allowance for loan losses and valuation of other real estate owned.

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, 2011. The consolidated financial statements include the accounts of the Company and Centrue Bank. Intercompany balances and transactions have been eliminated in consolidation and certain 2011 amounts have been reclassified to conform to the 2012 presentation. The annualized results of operations during the three months ended March 31, 2012 are not necessarily indicative of the results expected for the year ending December 31, 2012. All financial information in the following tables is in thousands (000s), except share and per share data. 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.

Note 2. Earnings Per Share

Basic earnings per share for the three months ended March 31, 2012 and 2011 were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share for the same periods were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the stock options and warrants. Computations for basic and diluted earnings per share are provided as follows:

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 2. Earnings Per Share (Continued)

	Three Months Ended March 31, 2012	2011
Basic Earnings (Loss) Per Common Share		
Net income (loss) for common stockholders	$(1,017)	$(3,952)
Weighted average common shares outstanding	6,063	6,048
Basic earnings (loss) per common share	$(0.17)	$(0.65)
Diluted Earnings (Loss) Per Common Share		
Weighted average common shares outstanding	6,063	6,048
Add: dilutive effect of assumed exercised stock options	—	—
Add: dilutive effect of assumed exercised common stock warrants	—	—
Weighted average common and dilutive potential shares outstanding	6,063	6,048
Diluted earnings (loss) per common share	$(0.17)	$(0.65)

There were 280,927 options and 508,320 warrants outstanding for the three months ended March 31, 2012 and 496,738 options and 508,320 warrants outstanding for the three months ended March 31, 2011 that were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price and therefore, were anti-dilutive. In addition, the Company's convertible preferred stock was not included in the computation of diluted earnings per share as it was anti-dilutive.

Note 3. Securities

The primary strategic objective related to the Company's securities portfolio is to assist with liquidity and interest rate risk management. The fair value of securities classified as available-for-sale was $246.4 million at March 31, 2012 compared to $228.8 million at December 31, 2011. The carrying value of securities classified as restricted (Federal

Reserve and Federal Home Loan Bank stock) was $7.5 million at March 31, 2012 compared to $9.2 million at December 31, 2011. The Company does not have any securities classified as trading or held-to-maturity.

The following tables represent the fair value of available-for-sale securities and the related, gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at March 31, 2012 and December 31, 2011:

	March 31, 2012			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	$15,505	$72	$(84)	$15,517
States and political subdivisions	17,924	656	—	17,268
U.S. government agency residential mortgage-backed securities	170,641	3,394	(61)	167,308
Collateralized residential mortgage obligations:				
Agency	27,161	221	(55)	26,995
Private label	1,433	124	(10)	1,319
Equity securities	2,583	171	—	2,412
Collateralized debt obligations:				
Single issue	2,064	—	—	2,064
Pooled	7,084	627	(1,604)	8,061
Corporate	1,966	—	(34)	2,000
	$246,361	$5,265	$(1,848)	$242,944

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 3. Securities (Continued)

	December 31, 2011			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
U.S. government agencies	$3,019	$88	$—	$2,931
States and political subdivisions	18,125	649	(1)	17,477
U.S. government agency residential mortgage-backed securities	177,539	2,790	(101)	174,850
Collateralized residential mortgage obligations:				
Agency	15,527	229	—	15,298
Private label	1,550	72	(7)	1,485
Equity securities	2,530	134	—	2,396
Collateralized debt obligations:				
Single issue	2,064	—	—	2,064
Pooled	6,600	53	(1,574)	8,121
Corporate	1,882	—	(118)	2,000
	$228,836	$4,015	$(1,801)	$226,622

The amounts below include the activity for available-for-sale securities related to sales, maturities and calls:

	Three Months Ended March 31,	
	2012	2011
Proceeds from calls and maturities	$1,270	$4,660
Proceeds from sales	942	—
Realized gains	16	—
Realized losses	—	—
Net impairment loss recognized in earnings	—	(392)
Tax benefit (provision) related to net realized gains and losses	(6)	151

The following table represents securities with unrealized losses not recognized in income presented by the length of time individual securities have been in a continuous unrealized loss position:

	March 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies	12,761	(84)	—	—	12,761	(84)
U.S. government agency residential mortgage-backed securities	14,260	(61)	—	—	14,260	(61)
Collateralized residential mortgage obligations:						
Agency	12,965	(55)	—	—	12,965	(55)
Private label	608	(10)	—	—	608	(10)
Collateralized debt obligations: pooled	—	—	3,593	(1,604)	3,593	(1,604)
Corporate	1,966	(34)	—	—	1,966	(34)
Total temporarily impaired	$42,560	$(244)	$3,593	$(1,604)	$46,153	$(1,848)

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 3. Securities (Continued)

	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$524	$(1)	$—	$—	$524	$(1)
U.S. government agency residential mortgage-backed securities	30,895	(101)	—	—	30,895	(101)
Collateralized residential mortgage obligations: private label	731	(7)	—	—	731	(7)
Collateralized debt obligations: pooled	—	—	6,497	(1,574)	6,497	(1,574)
Corporate	1,882	(118)	—	—	1,882	(118)
Total temporarily impaired	$34,032	$(227)	$6,497	$(1,574)	$40,529	$(1,801)

The fair values of securities classified as available-for-sale at March 31, 2012, by contractual maturity, are shown as follows. Securities not due at a single maturity date, including mortgage-backed securities, collateralized mortgage obligations, and equity securities are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$3,044	$3,060
Due after one year through five years	24,743	24,974
Due after five years through ten years	6,370	6,711
Due after ten years	10,753	9,798
U.S. government agency residential mortgage-backed securities	167,308	170,641
Collateralized residential mortgage obligations	28,314	28,594
Equity securities	2,412	2,583
	$242,944	$246,361

The following table presents a rollforward of the credit losses recognized in earnings for the three month period ended March 31, 2012 and 2011:

	2012	2011
Beginning balance, January 1,	$20,597	$20,362
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	—	—
Additions/Subtractions		
Amounts realized for securities sold during the period	—	—
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company will be required to sell prior to recovery of amortized cost basis	—	—
Reduction for increase in cash flows expected to be collected that are recognized over the remaining life of the security	—	—
Increases to the amount related to the credit loss for which other-than-temporary was previously recognized	—	392
Ending balance, March 31,	$20,597	$20,754

See Note 9 on Fair Value for additional information about our analysis on the security portfolio related to the fair value and other-than-temporary impairment disclosures of these instruments.

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans

The major classifications of loans follow:

	Aggregate Principal Amount March 31, 2012	December 31, 2011
Commercial	$61,872	$63,982
Agricultural & AGRE	33,800	39,128
Construction, land & development	37,082	42,008
Commercial RE	290,284	288,068
1-4 family mortgages	138,394	146,767
Consumer	2,300	2,442
Total loans	$563,732	$582,395
Allowance for loan losses	(20,338)	(21,232)
Loans, net	$543,394	$561,163

There were $1.2 million and $1.8 million of loans held for sale at March 31, 2012 and December 31, 2011, respectively.

The credit quality indicator utilized by the Company to internally analyze the loan portfolio is the internal risk rating. Internal risk ratings of 0 to 5 are considered pass credits, a risk rating of a 6 is special mention, a risk rating of a 7 is substandard, and a risk rating of an 8 is doubtful. Loans classified as pass credits have no identified material weaknesses and are performing as agreed. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the commercial loan portfolio by internal risk rating:

Mar. 31, 2012	Commercial				Commercial Real Estate		
Internal Risk Rating	Closed end	Lines of Credit	Agriculture & AG RE	Construction Land & Development	Owner-Occupied	Non-Owner Occupied	Total
1-2	$800	$660	$ 3,922	$ 3,569	$8,587	$ 640	$18,178
3	2,730	6,442	12,838	1,023	8,780	15,515	47,328
4	11,847	14,543	13,577	1,442	68,768	48,748	158,925
5	10,082	5,039	2,597	4,878	20,963	49,995	93,554
6	2,898	3,931	741	6,027	13,057	19,107	45,761
7	1,681	1,219	125	20,143	15,553	20,571	59,292
8	—	—	—	—	—	—	—
Total	$30,038	$31,834	$ 33,800	$ 37,082	$135,708	$ 154,576	$423,038

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

Dec. 31, 2011	Commercial				Commercial Real Estate		
Internal Risk Rating	Closed end	Lines of Credit	Agriculture & AG RE	Construction Land & Development	Owner-Occupied	Non-Owner Occupied	Total
1-2	$716	$449	$ 4,833	$ 3,649	$3,489	$ 647	$13,783
3	2,938	7,708	15,649	1,034	8,971	17,168	53,468
4	12,989	13,533	14,323	1,566	68,045	44,665	155,121
5	10,405	5,322	3,517	6,200	20,518	51,580	97,542
6	3,374	3,892	741	5,497	10,868	19,900	44,272
7	1,434	1,222	65	24,062	19,720	22,497	69,000
8	—	—	—	—	—	—	—
Total	$31,856	$32,126	$ 39,128	$ 42,008	$131,611	$ 156,457	$433,186

The retail residential loan portfolio is generally unrated. Delinquency is a typical factor in adversely risk rating a credit to a special mention or substandard. The following table presents the retail residential loan portfolio by internal risk rating:

	Residential – 1-4 family		
	Senior Lien	JR Lien & Lines of Credit	Total
Mar. 31, 2012			
Unrated	$78,795	$47,103	$125,898
Special mention	1,604	830	2,434
Substandard	8,854	893	9,747
Doubtful	315	—	315
Total	$89,568	$48,826	$138,394

	Residential – 1-4 family		
			Total

	Senior Lien	JR Lien & Lines of Credit	
Dec. 31, 2011			
Unrated	$83,969	$49,498	$133,467
Special mention	907	904	1,811
Substandard	10,013	1,161	11,174
Doubtful	315	—	315
Total	$95,204	$51,563	$146,767

An analysis of the activity in the allowance for loan losses for the three months ended March 31, 2012 and 2011 follows:

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2012							
Beginning Balance	$ 1,590	$ 5	$ 4,811	$ 11,680	$ 3,090	$ 56	$21,232
Charge-offs	—	(25)	(52)	(2,150)	(403)	(5)	(2,635)
Recoveries	—	17	284	87	3	—	391
Provision	(87)	11	(388)	1,582	239	(7)	1,350
Ending Balance	$ 1,503	$ 8	$ 4,655	$ 11,199	$ 2,929	$ 44	$20,338

11.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

	Commercial	Agriculture & AGRE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
March 31, 2011							
Beginning Balance	$ 1,634	$ 337	$ 12,500	$ 13,721	$ 3,273	$ 46	$31,511
Charge-offs	(65)	—	(4,501)	(1,718)	(626)	(20)	(6,930)
Recoveries	6	1	1	217	28	5	258
Provision	184	(23)	655	3,049	380	5	4,250
Ending Balance	$ 1,759	$ 315	$ 8,655	$ 15,269	$ 3,055	$ 36	$29,089

The following is an analysis on the balance in the allowance for loan losses and the recorded investment in impaired loans by portfolio segment based on impairment method as of March 31, 2012 and December 31, 2011:

Mar. 31, 2012	Commercial	Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential	Consumer	Total
Allowance for loan losses:							
Loans individually evaluated for impairment	$ 674	$ 8	$ 3,172	$ 6,044	$ 1,686	$ —	$11,584
Loans collectively evaluated for impairment	829	—	1,483	5,155	1,243	44	8,754
Total ending allowance balance	$ 1,503	$ 8	$ 4,655	$ 11,199	$ 2,929	$ 44	$20,338
Loan balances:							
Loans individually evaluated for impairment	$ 2,712	$ 125	$ 20,143	$ 32,742	$ 9,948	$ 1	$65,671
Loans collectively evaluated for impairment	59,160	33,675	16,939	257,542	128,446	2,299	498,061
Loans with an allowance recorded:	$ 61,872	$ 33,800	$ 37,082	$ 290,284	$ 138,394	$ 2,300	$563,732

Dec. 31, 2011	Commercial	Consumer	Total

		Agriculture & AG RE	Construction, Land & Development	Commercial RE	1-4 Family Residential		
Allowance for loan losses:							
Loans individually evaluated for impairment	$ 715	$ —	$ 2,228	$ 5,211	$ 1,591	$ 5	$ 9,750
Loans collectively evaluated for impairment	875	5	2,583	6,469	1,499	51	11,482
Total ending allowance balance	$ 1,590	$ 5	$ 4,811	$ 11,680	$ 3,090	$ 56	$ 21,232
Loan balances:							
Loans individually evaluated for impairment	$ 2,463	$ 65	$ 24,062	$ 36,141	$ 10,563	$ 5	$ 73,299
Loans collectively evaluated for impairment	61,519	39,063	17,946	251,927	136,204	2,437	509,096
Loans with an allowance recorded:	$ 63,982	$ 39,128	$ 42,008	$ 288,068	$ 146,767	$ 2,442	$ 582,395

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

Troubled Debt Restructurings:

The Company had troubled debt restructurings ("TDRs") of $6.4 million and $7.1 million as of March 31, 2012 and December 31, 2011, respectively. Specific reserves of $1.3 million and $0.95 million were allocated to TDRs as of March 31, 2012 and December 31, 2011, respectively. At March 31, 2012, nonaccrual TDR loans were $5.3 million, as compared to $6.0 million at December 31, 2011. March 31, 2012 and December 31, 2011, $1.1 million of TDRs were on accrual status. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as TDRs as of March 31, 2012.

During the period ending March 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan to a below market rate or the payment modification to interest only. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 6 months to 16 months.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending March 31, 2012:

	For the Three Months Ended March 31, 2012			
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Provision
Commercial				
Closed End	—	$ —	$ —	$ —
Line of Credit	—	—	—	—
Agricultural & AGRE	—	—	—	—
Construction, land & development	—	—	—	—

CRE – all other				
Owner Occupied	—	—	—	—
Non-Owner Occupied	1	892	892	585
1-4 family residential				
Senior lien	—	—	—	—
Junior lien & lines or credit	—	—	—	—
Consumer	—	—	—	—
Total	1	$ 892	$ 892	$ 585

The troubled debt restructurings described above increased the allowance for loan losses by $0.6 million and resulted in no charge offs during the three month period ending March 31, 2012.

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ending March 31, 2011:

	For the Three Months Ended March 31, 2011						
	Number of Loans	Pre-Modification Recorded Investment		Post-Modification Recorded Investment		Provision	
Commercial							
Closed End	—	$	—	$	—	$	—
Line of Credit	—		—		—		—
Agricultural & AGRE	—		—		—		—
Construction, land & development	1		45		45		—
CRE – all other							
Owner Occupied	—		—		—		—
Non-Owner Occupied	—		—		—		—
1-4 family residential							
Senior lien	—		—		—		—
Junior lien & lines or credit	—		—		—		—
Consumer	—		—		—		—
Total	1	$	45	$	45	$	—

The troubled debt restructurings described did not increase the allowance for loan losses and resulted in no charge offs during the three month period ending March 31, 2011.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three month period ending March 31, 2012.

The Company evaluates loan modifications to determine if the modification constitutes a troubled debt restructure. A loan modification constitutes a troubled debt restructure if the borrower is experiencing financial difficulty and the Company grants a concession it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its loans with the Company's debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting guidelines. TDRs are separately identified for impairment disclosures. If a loan is considered to be collateral dependent loan, the TDR is reported, net, at the fair value of the collateral.

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following tables present data on impaired loans:

March 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Loans with no related allowance recorded:						
Commercial						
Closed End	$ 9	$ 23	$ —	$ 32	$ —	$ —
Line of Credit	—	—	—	369	—	—
Agricultural & AGRE	65	682	—	65	—	—
Construction, land & development	3,374	7,245	—	6,861	(8)	(8)
CRE – all other						
Owner Occupied	4,611	5,290	—	5,437	(2)	(2)
Non-Owner Occupied	4,880	4,880	—	10,266	77	50
1-4 family residential						
Senior lien	1,487	1,776	—	1,824	5	3
Junior lien & lines or credit	267	372	—	642	2	2
Consumer	—	—	—	—	—	—
Subtotal	14,693	20,268	—	25,496	74	45
Loans with an allowance recorded:						
Commercial						
Closed End	$ 1,484	$ 1,575	$ 673	$ 1,630	$ 17	$ 12
Line of Credit	1,219	1,482	1	1,727	—	(10)
Agricultural & AGRE	60	60	8	20	1	—
CRE - Construction, land & development	16,769	27,637	3,172	18,933	6	4
CRE – all other						
Owner Occupied	10,813	11,166	2,331	13,319	145	89
Non-owner occupied	12,438	14,378	3,713	11,232	69	40
1-4 family residential						
Senior lien	7,670	8,138	1,378	7,693	112	95
Junior lien & lines of credit	524	671	308	468	3	3

Consumer	1	1	—	4	—	—
Subtotal	50,978	65,108	11,584	55,026	353	233
Total	$ 65,671	$ 85,376	$ 11,584	$ 80,522	$ 427	$ 278
Commercial	$ 55,723	$ 74,418	$ 9,898	$ 69,891	$ 305	$ 175
Residential	$ 9,947	$ 10,957	$ 1,686	$ 10,627	$ 122	$ 103
Consumer	$ 1	$ 1	$ —	$ 4	$ —	$ —

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
Loans with no related allowance recorded:						
Commercial						
Closed End	$ 28	$ 28	$ —	$ 53	$ 1	$ 1
Line of Credit	45	308	—	550	—	—
Agricultural & AGRE	65	682	—	62	3	3
Construction, land & development	4,453	14,583	—	10,066	58	58
CRE – all other						
Owner Occupied	4,738	5,417	—	6,284	44	41
Non-Owner Occupied	7,749	8,656	—	11,933	442	416
1-4 family residential						
Senior lien	1,108	1,576	—	2,198	37	37
Junior lien & lines or credit	683	799	—	697	17	16
Consumer	—	—	—	—	—	—
Subtotal	18,869	32,049	—	31,843	602	572
Loans with an allowance recorded:						
Commercial						
Closed End	$ 1,213	$ 1,213	$ 449	$ 1,380	$ 84	$ 84
Line of Credit	1,177	1,177	266	2,337	25	14
Agricultural & AGRE	—	—	—	1,039	—	—
CRE - Construction, land & development	19,609	30,053	2,228	19,749	(26)	(27)
CRE – all other						
Owner Occupied	14,851	15,204	3,678	13,152	850	773
Non-owner occupied	8,803	11,142	1,533	11,632	383	353
1-4 family residential						
Senior lien	8,396	8,580	1,391	8,062	693	677
Junior lien & lines of credit	375	482	200	386	9	9
Consumer	6	6	5	4	—	—
Subtotal	54,430	67,857	9,750	57,741	2,018	1,883
Total	$ 73,299	$ 99,906	$ 9,750	$ 89,584	$ 2,620	$ 2,455

Commercial	$ 62,731	$ 88,462	$ 8,154	$ 78,237	$ 1,864	$ 1,716
Residential	$ 10,562	$ 11,438	$ 1,591	$ 11,343	$ 756	$ 739
Consumer	$ 6	$ 6	$ 5	$ 4	$ —	$ —

Due to the economic conditions facing many of its customers, the Company determined that there were $22.8 million and $28.6 million of loans that were classified as impaired but were considered to be performing loans at March 31, 2012 and December 31, 2011, respectively.

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 4. Loans (Continued)

The following tables represent activity related to loan portfolio aging:

March 31, 2012	30 – 59 days past due	60 -89 days past due	90 days past due or nonaccrual	Total Past Due	Current	Total Loans	Recorded Investment 90 days Accruing
Commercial							
Closed end	$171	$43	$ 484	$698	$29,340	$30,038	$ —
Line of credit	65	—	1,219	1,284	30,550	31,834	—
Agricultural & AGRE	100	—	65	165	33,635	33,800	—
CRE – construction, land & develop	24	—	19,693	19,717	17,365	37,082	—
CRE – all other							
Owner occupied	1,236	207	6,922	8,365	127,343	135,708	—
Non-owner occupied	280	—	9,925	10,205	144,371	154,576	—
Residential – 1-4 family							
Senior lien	2,559	—	3,961	6,520	83,048	89,568	—
Junior lien & lines of credit	601	72	578	1,251	47,575	48,826	—
Consumer	4	—	—	4	2,296	2,300	—
Total	$5,040	$322	$ 42,847	$48,209	$515,523	$563,732	$ —

December 31, 2011	30 – 59 days past due	60 -89 days past due	90 days past due or nonaccrual	Total Past Due	Current	Total Loans	Recorded Investment 90 days Accruing
Commercial							
Closed end	$1,183	$—	$ 95	$1,278	$30,578	$31,856	$ —
Line of credit	—	43	1,222	1,265	30,861	32,126	—
Agricultural & AGRE	—	—	65	65	39,063	39,128	—
CRE – construction, land & develop	—	472	23,738	24,210	17,798	42,008	—
CRE – all other							
Owner occupied	2,477	1,357	8,633	12,467	119,144	131,611	—
Non-owner occupied	3,207	3,000	6,572	12,779	143,678	156,457	

Residential – 1-4 family							
Senior lien	2,832	691	3,588	7,111	88,093	95,204	—
Junior lien & lines of credit	738	151	806	1,695	49,868	51,563	—
Consumer	10	—	4	14	2,428	2,442	—
Total	$10,447	$5,714	$ 44,723	$60,884	$521,511	$582,395	$ —

The following table represents data for nonperforming loans:

	For the period ended	
	March 31, 2012	December 31, 2011
Commercial		
Closed end	$484	$ 95
Line of credit	1,219	1,222
Agricultural & AGRE	65	65
CRE – construction, land & development	19,693	23,738
CRE – all other		
Owner occupied	6,922	8,633
Non-owner occupied	9,925	6,572
Residential – 1-4 family		
Senior lien	3,961	3,588
Junior lien & lines of credit	578	806
Consumer	—	4
Total	$42,847	$ 44,723

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

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 5. Share Based Compensation

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, 570,000 shares of the Company's unissued common stock have been reserved and are available for issuance upon the exercise of options and rights granted under the 2003 Option Plan. The options have an exercise period of seven to ten years from the date of grant. There are 66,000 shares available to grant under this plan.

A summary of the status of the option plans as of March 31, 2012, and changes during the period ended on those dates is presented below:

	March 31, 2012			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2012	328,438	$ 16.17		
Granted	—	—		
Exercised	—	—		
Forfeited	(47,511)	16.25		
Outstanding at end of period	280,927	$ 16.15	3.0 years	$ —
Vested or expected to vest	279,730	$ 16.17	3.0 years	$ —
Options exercisable at period end	254,327	$ 16.55	2.9 years	$ —

Options outstanding at March 31, 2012 and December 31, 2011 were as follows:

	Outstanding	Exercisable

Range of Exercise Prices			Number	Weighted-Average Remaining Contractual Life	Number	Weighted-Average Exercise Price
March 31, 2012:						
$ 5.24	-	$ 13.00	73,500	3.9 years	56,100	$ 7.18
13.88	-	18.63	92,327	2.3 years	85,127	17.25
19.03	-	23.31	115,100	2.9 years	113,100	20.67
			280,927	3.0 years	254,327	$ 16.55
December 31, 2011:						
$ 5.24	-	$ 13.00	75,500	4.2 years	49,400	$ 6.89
13.88	-	18.63	124,838	2.0 years	110,438	16.43
19.03	-	23.31	128,100	3.0 years	124,500	20.77
			328,438	2.9 years	284,338	$ 16.67

There were no options exercised for the periods ended March 31, 2012 and 2011. The compensation cost that has been charged against income for the stock options portion of the Option Plans was $0.003 million and $0.03 million for the three months ended March 31, 2012 and 2011, respectively.

There were no stock options granted during the 2012 and 2011 periods.

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 5. Share Based Compensation (Continued)

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2012 and beyond is estimated as follows:

	Amount
April, 2012 – December, 2012	$ 30
2013	18
2014	—
Total	$ 48

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. Segment Information

The Company’s segment information provided below focuses on its three primary lines of business (Segment(s)): Retail Banking, Commercial Banking and Treasury. 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 each Segment as if it operated on a stand-alone basis. Thus, each Segment, in addition to its direct revenues, expenses, assets and liabilities, includes an allocation of shared support function expenses and corporate overhead. All Segments also include funds transfer adjustments to appropriately reflect the cost of funds on loans made, funding credits on deposits generated, and the cost of maintaining adequate liquidity. Apart from these adjustments, the accounting policies used are similar to those described in Note 1 of our financial statements from the December 31, 2011 10-K.

Since there are no comprehensive standards for management accounting that are equivalent to accounting principles generally accepted in the United States of America, the information presented may not necessarily be 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.

The Retail Banking Segment provides retail banking services including direct and indirect lending, checking, savings, money market and certificate of deposit ("CD") accounts, safe deposit rental, automated teller machines and other traditional and electronic commerce retail banking services to individual customers through the Bank's branch locations. The Retail Banking Segment also provides a variety of mortgage lending products to meet customer needs. The majority of the mortgage loans it originates are sold to a third party mortgage services company, which provides private label loan processing and servicing support for both loans sold and loans retained by the Bank.

The Commercial Banking Segment provides commercial banking services including lending, business checking and deposits, treasury management and other traditional as well as electronic commerce commercial banking services to middle market and small business customers through the Bank's branch locations.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 7. Segment Information (Continued)

The Treasury segment is responsible for managing the investment portfolio, acquiring wholesale funding for loan activity and assisting in the management of the Company's liquidity and interest rate risk. Information reported internally for performance assessment follows:

	Three Months Ended March 31, 2012				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	$1,878	$ 4,778	$(490)	$ (123)	$6,043
Other revenue	1,988	699	16	349	3,052
Other expense	2,519	1,091	45	3,923	7,578
Noncash items					
Depreciation	237	—	—	193	430
Provision for loan losses	232	1,118	—	—	1,350
Other intangibles	237	—	—	—	237
Net allocations	1,184	2,425	281	(3,890)	—
Income tax benefit	—	—	—	—	—
Segment profit (loss)	$(543)	$ 843	$(800)	$ —	$(500)
Segment assets	$160,298	$ 461,328	$263,016	$ 77,161	$961,803

	Three Months Ended March 31, 2011				
	Retail Segment	Commercial Segment	Treasury Segment	Other Operations	Total Company
Net interest income (loss)	$2,043	$ 5,980	$(631)	$ (142)	$7,250
Other revenue	1,906	318	(392)	292	2,124
Other expense	2,723	828	44	4,450	8,045
Noncash items					
Depreciation	275	1	—	203	479
Provision for loan losses	385	3,865	—	—	4,250
Other intangibles	276	—	—	—	276
Net allocations	1,435	2,719	349	(4,503)	—

Income tax expense (benefit)	(12)	(148)	(58)	—	(218)
Segment profit (loss)	$(1,133)	$ (967)	$(1,358)	$ —	$(3,458)
Segment assets	$185,218	$ 574,688	$241,950	$ 71,980	$1,073,836

Note 8. Borrowed Funds and Debt Obligations

As of March 31, 2012, the Company has $10.3 million outstanding per a loan agreement dated March 31, 2008. This original agreement was entered into with Bank of America and consisted of three credit facilities: a secured revolving line of credit, a secured term facility, and a subordinated debt. In February 2009, the loan agreement on the revolving line of credit was amended resulting in an aggregate principal amount of $20.3 million. The first credit facility consisted of a $10.0 million secured revolving line of credit which matured on June 30, 2009 and was not renewed by Bank of America. The second credit facility consists of a $0.3 million secured term facility, which will mature in March 31, 2015. The third credit facility consists of $10.0 million in subordinated debt, which also matures in March 31, 2015. On December 14, 2009, Bank of America transferred to Cole Taylor Bank all rights, title, interest in to and under the loan agreements dated March 31, 2008. Repayment of each of the remaining two credit facilities is interest only on a quarterly basis, with the principal amount of the loan due at maturity. The term credit facility is secured by a pledge of the stock of the Bank. The subordinated debt credit facility is unsecured and is intended to qualify as Tier II capital for regulatory purposes. However, the amount included in Tier II capital has been reduced by 60% as of March 31, 2012 due to a sub-debt phase-out provision and will be further reduced by 20% in each of the next two years. The outstanding balance of the debt agreements was $10.3 million as of March 31, 2012 and December 31, 2011. The Company requires regulatory approval in order to make the quarterly interest payments under our debt agreements as described in Note 13.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 8. Borrowed Funds and Debt Obligations (Continued)

On March 7, 2011, the Company entered into an amendment with the lender, which modified the covenant relating to capitalization at the Company and Bank level so that the Company returned to full compliance with the terms of its credit agreement as of December 31, 2010. The amendment contains customary covenants, including but not limited to, the Company and the Bank's maintenance of its status as adequately capitalized and the Bank's minimum loan loss reserves to total loans of 3.00%. As of December 31, 2011, the Company was in compliance with all covenants, with the exception of the tier 1 leverage ratio, and all payments remain current. A covenant waiver was received from the lender as of December 31, 2011; the loan covenants were revised effective quarter-end March 31, 2012 and each quarter thereafter to maintain the adequately capitalized levels for the Bank and remove the holding company capital requirements. As of March 31, 2012, the Company and Bank are in compliance with the covenants of the amended agreement.

Additionally, the Company has a note outstanding to an individual with an imputed interest rate of 5.25% maturing October 24, 2012 from a prior acquisition. The balance as of March 31, 2012 and December 31, 2011 was $0.2 million.

Note 9. Fair Value

The Company measures, monitors, and discloses certain of its assets and liabilities on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels based on the reliability of the input assumptions. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements and the categorization of where an asset or liability falls within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2 – Observable inputs other than level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

<u>Securities</u>

Available for Sale Securities. The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). If the securities could not be priced using quoted market prices, observable market activity or comparable trades, the financial market was considered not active and the assets were classified as Level 3. The fair values of Level 3 investment securities are determined by the Finance group who provide default and scenario assumptions to the Company's Chief Investment Officer (CIO) who performs the modeling for the analysis and submits for review by the Chief Financial Officer (CFO). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Ratings agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

Pooled Trust Preferred Collateralized Debt Obligations (“CDO”). The assets included in Level 3 are CDOs. Over the past few years, the decline in the level of observable inputs and market activity for trust preferred CDOs by the measurement date was significant and resulted in unreliable external pricing. As such, the Company uses an internal other-than-temporary impairment (“OTTI”) evaluation model to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the quarter. The OTTI model considers the structure and term of each CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust-preferred securities. Assumptions used in the model include expected future default rates and prepayments.

The Company assumes no recoveries on defaults and treats all interest payment deferrals as defaults. In addition, we use the model to “stress” each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company’s note class.

Each issuer in the tranche was analyzed using the Fitch ratings for the quarter and key financial data so that the issuer in each tranche can be divided between a pool of “performing” companies and “under-performing” companies. A factor is applied to the under-performing company for each quarter to project additional defaults and deferrals to be factored into the cash flow model. Three internal scenarios were developed that had different assumptions regarding the impact of the economic environment on additional defaults and deferrals for the upcoming quarters. On average, the additional deferrals for a specific CDO that were factored in to our calculation were approximately 8% of the performing balance of the instrument across the three scenarios. All of the additional deferrals for the three scenarios are factored in to the cash flow for each tranche. A discount factor to be applied to the London Interbank Offered Rate (“LIBOR”) was developed for each specific tranche and incorporated to arrive at the discount rate for the CDO. The factor applied ranged from 200 basis points to 600 basis points based on the rating of the CDO and its gross-up factor for risk based capital. These rates were applied to calculate the net present value of the cash flows. The results of the three net present value calculations were weighted based on their likelihood of occurring. The scenarios were weighted 35%, 47% and 18%.

Finally, an independent valuation of our portfolio was obtained. This was weighted as the final overall step to arrive at our valuation for March 31, 2012 using 55% for the internal weighting and 45% for the external one. Due to market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

At March 31, 2012, the Company held five pooled trust preferred CDOs with an amortized cost of $8.1 million. These securities were rated high quality (A3 and above) at inception, but at March 31, 2012, these securities were rated as Ca, which are defined as highly speculative and/or default, with some recovery; and C, which is the lowest rating. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies.

The Company performed an analysis including evaluation for OTTI for each of the five CDOs. During the first quarter of 2012, our model indicated no OTTI was needed for credit impairment. Management has determined that the remaining CDOs are deemed to be only temporarily impaired at quarter-end due to the projected cash flows adjusted for the possible further deterioration is sufficient to return the outstanding principal balance with interest at the stated rate.

Private Label CMOs. Private label CMOs were also evaluated using management's internal analysis process. These securities were rated high quality (A3 and above) at inception and are primarily supported by prime collateral, although the RAST Series security has some alt-a collateral support. During the first quarter of 2012, our model indicated no OTTI on these CMOs, with an aggregate cost basis of $1.3 million.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

Single Issue Trust Preferred. During the third quarter of 2010, the Company purchased $3.8 million of single-issue trust preferred securities that are classified as available for sale. With respect to these securities, the Company looks at rating agency actions, payment history, the capital levels of the banks and the financial performance as filed in regulatory reports. As of March 31, 2012, the aggregate cost basis on these securities was $2.1 million as there have been calls on these securities in previous quarters.

The Company’s unrealized losses on other securities relate primarily to its investment in CDO securities. The decline in fair value is primarily attributable to temporary illiquidity and the financial crisis affecting these markets and not necessarily the expected cash flows of the individual securities. Due to the illiquidity in the market, it is unlikely that the Company would be able to recover its investment in these securities if the Company sold the securities at this time. The Company does not intend to sell these securities nor is it more likely than not the Company will be required to sell these securities before its anticipated recovery.

<u>Assets and Liabilities Measured at Fair Value on a Recurring Basis</u>

The following table summarizes, by measurement hierarchy, the various assets and liabilities of the Company that are measured at fair value on a recurring basis:

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
U.S. government agencies	$ 15,505	$ —	$ 15,505	$ —

State and political subdivisions	17,924	—	17,924	—
U.S. government agency residential mortgage-backed securities	170,641	—	170,641	—
Collateralized mortgage obligations:				
Agency	27,161	—	27,161	—
Private Label	1,433	—	—	1,433
Equities	2,583	—	2,583	—
Collateralized debt obligations:				
Single Issue	2,064	—	2,064	—
Pooled	7,084	—	—	7,084
Corporate	1,966	—	1,966	—
Available-for-sale securities	$246,361	$ —	$ 237,844	$ 8,517

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011				
U.S. government agencies	$3,019	$ —	$ 3,019	$ —
State and political subdivisions	18,125	—	18,125	—
U.S. government agency residential mortgage-backed securities	177,539	—	177,539	—
Collateralized mortgage obligations:				
Agency	15,527	—	15,527	—
Private Label	1,550	—	—	1,550
Equities	2,530	—	2,530	—
Collateralized debt obligations:				
Single Issue	2,064	—	2,064	—
Pooled	6,600	—	—	6,600
Corporate	1,882	—	1,882	—
Available-for-sale securities	$228,836	$ —	$ 220,686	$ 8,150

There were no transfers between Level 1 and Level 2 during the first quarter of 2012 or all of 2011.

Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs

The following table reconciles the beginning and ending balances of the assets of the Company that are measured at fair value on a recurring basis using significant unobservable inputs. There currently are no liabilities of the Company that are measured at fair value on a recurring basis using significant unobservable inputs.

	Securities Available for Sale			
	2012		2011	
	CDOs	CMOs	CDOs	CMOs
Beginning balance, January 1	$6,600	$1,550	$4,422	$4,936
Transfers into Level 3	—	—	—	—
Total gains or losses (realized/unrealized) included in earnings				
Security impairment	—	—	(392)	—
Payment received	(60)	(166)	—	(1,088)
Other changes in fair value	—	1	20	—
Included in other comprehensive income	544	48	864	30
Ending Balance, March 31	$7,084	$1,433	$4,914	$3,878

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2012.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateralized mortgage obligations	$ 1,433	Collateral coverage	Probability of loss	0% - 40% (22%)
			Coverage ratio	5% - 5% (5%)
Collateralized debt obligations	$ 7,084	Discounted cash flow	Collateral default rate	4% - 30% (8%)

Discount rate	3% - 5% (3%)

Assets Measured at Fair Value on a Non-Recurring Basis

The following table summarizes, by measurement hierarchy, financial assets of the Company that are measured at fair value on a non-recurring basis.

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
Impaired loans				
Commercial				
Closed end	$ 811	$ —	$ —	$ 811
Line of credit	1,218	—	—	1,218
Agricultural & AGRE	52	—	—	52
CRE - construction, land & development	13,597	—	—	13,597
CRE – all other				
Owner occupied	8,482	—	—	8,482
Non-owner occupied	8,725	—	—	8,725
1-4 family residential				
Senior lien	6,292	—	—	6,292
Junior lien & lines of credit	216	—	—	216
Consumer	1	—	—	1

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Centrue Financial Corporation

Notes to Unaudited Consolidated Financial Statements

(Table Amounts In Thousands, Except Share Data)

Note 9. Fair Value (Continued)

	Carrying Amount	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
OREO property				
Commercial				
Closed end	$ —	$ —	$ —	$ —
Line of credit	—	—	—	—
Agricultural & AGRE	1,423	—	—	1,423
CRE - construction, land & development	3,857	—	—	3,857
CRE – all other				
Owner occupied	3,390	—	—	3,390
Non-owner occupied	973	—	—	973
1-4 family residential				
Senior lien				