

CIB MARINE BANCSHARES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

CIB MARINE BANCSHARES, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
CIB Marine Bancshares, Inc.
Waukesha, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CIB Marine Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIB Marine Bancshares, Inc., as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

Oak Brook, Illinois
February 27, 2013

CIB MARINE BANCSHARES, INC.
Consolidated Balance Sheets

	At December 31,	
	2012	2011
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 53,530	\$ 44,828
Investment securities:		
Securities available for sale	86,480	89,009
Trading securities	3,273	—
Total investment securities	89,753	89,009
Loans held for sale	347	2,120
Loans	318,503	357,632
Allowance for loan losses	(11,378)	(16,128)
Net loans	307,125	341,504
Federal Home Loan Bank stock	2,956	11,555
Premises and equipment, net	4,161	4,559
Accrued interest receivable	1,298	1,648
Other real estate owned, net	10,493	7,088
Bank owned life insurance	4,000	—
Other assets	1,466	1,665
Total assets	\$ 475,129	\$ 503,976
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 54,163	\$ 58,884
Interest-bearing demand	31,496	29,080
Savings	154,124	154,365
Time	154,901	180,257
Total deposits	394,684	422,586
Short-term borrowings	10,414	9,784
Long-term borrowings	—	5,000
Accrued interest payable	271	376
Other liabilities	2,131	2,008
Total liabilities	407,500	439,754
Stockholders' Equity		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed noncumulative perpetual issued-55,624 shares of Series A and 4,376 shares of Series B convertible; aggregate liquidation preference-\$60,000	51,000	51,000
Common stock, \$1 par value; 50,000,000 authorized shares; 18,346,391 issued shares; 18,135,344 outstanding shares	18,346	18,346
Capital surplus	158,493	158,480
Accumulated deficit	(157,931)	(159,298)
Accumulated other comprehensive income related to available for sale securities	1,924	2,113
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(3,674)	(5,890)
Accumulated other comprehensive loss, net	(1,750)	(3,777)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	67,629	64,222
Total liabilities and stockholders' equity	\$ 475,129	\$ 503,976

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Operations and Comprehensive Income

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Interest Income		
Loans	\$17,713	\$20,201
Loans held for sale	127	377
Securities	3,434	5,008
Other investments	130	94
Total interest income	21,404	25,680
Interest Expense		
Deposits	3,069	5,116
Short-term borrowings	17	16
Federal Home Loan Bank advances	132	337
Total interest expense	3,218	5,469
Net interest income	18,186	20,225
Provision for (reversal of) loan losses	(3,213)	6,381
Net interest income after provision for (reversal of) loan losses	21,399	13,844
Noninterest Income		
Deposit service charges	499	651
Other service fees	202	166
Other income	130	122
Total other-than-temporary impairment losses		
Total impairment loss	(1,422)	(600)
Loss recognized in other comprehensive income	—	312
Net impairment loss recognized in earnings	(1,422)	(288)
Net gains on sale of securities	773	—
Net gains on sale of assets	550	1,013
Total noninterest income	732	1,664
Noninterest Expense		
Compensation and employee benefits	9,982	9,679
Equipment	860	1,044
Occupancy and premises	1,528	1,741
Data processing	598	707
Federal deposit insurance	1,043	1,198
Professional services	1,481	1,788
Telephone and data communication	427	479
Insurance	686	741
Write down and losses on assets	2,058	2,095
Other expense	2,051	2,227
Total noninterest expense	20,714	21,699
Income (loss) from continuing operations before income taxes	1,417	(6,205)
Income tax expense	50	—
Income (loss) from continuing operations	1,367	(6,205)
Income from discontinued operations	—	781
Net income (loss)	1,367	(5,424)
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$1,367	\$(5,424)

continued

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Operations and Comprehensive Income (continued)

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Net income (loss) allocated to common stockholders	\$1,367	\$(5,424)
Other comprehensive income (loss):		
Change in unrealized losses on securities available for sale, net of reclassification	\$26	\$1,169
Recognized in earnings of unrealized losses on securities available for sale previously recorded and reclassified to trading account	1,261	—
Change in unrealized losses on securities available for sale for which a portion of OTTI has been recognized in earnings, net of reclassification	740	(298)
Net realized gains on available for sale securities	—	—
Total other comprehensive income	2,027	871
Comprehensive income (loss)	\$3,394	\$(4,553)
Earnings (Loss) Per Share		
Basic:		
Earnings (loss) from continuing operations	\$0.08	\$(0.34)
Income from discontinued operations	—	0.04
Net income (loss)	\$0.08	\$(0.30)
Diluted:		
Earnings (loss) from continuing operations	\$0.04	\$(0.34)
Income from discontinued operations	—	0.04
Net income (loss)	\$0.04	\$(0.30)
Weighted average shares-basic	18,127,892	18,127,892
Weighted average shares-diluted	35,631,892	18,127,892

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Stockholders' Equity

	Common Stock		Preferred Stock	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)		Treasury Stock	Total
	Shares	Par Value							
(Dollars in thousands, except share data)									
Balance at January 1, 2011	18,346,391	\$18,346	\$51,000	\$158,458	\$(153,874)	\$(4,648)	\$(529)		\$68,753
Net loss	—	—	—	—	(5,424)	—	—	—	(5,424)
Other comprehensive income	—	—	—	—	—	871	—	—	871
Stock option expense	—	—	—	22	—	—	—	—	22
Balance at December 31, 2011	18,346,391	\$18,346	\$51,000	\$158,480	\$(159,298)	\$(3,777)	\$(529)		\$64,222
Net income	—	—	—	—	1,367	—	—	—	1,367
Other comprehensive income	—	—	—	—	—	2,027	—	—	2,027
Stock option expense	—	—	—	13	—	—	—	—	13
Balance at December 31, 2012	18,346,391	\$18,346	\$51,000	\$158,493	\$(157,931)	\$(1,750)	\$(529)		\$67,629

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	\$1,367	\$(5,424)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred loan fee amortization	49	21
Depreciation and other amortization	771	406
Provision for (reversal of) loan losses	(3,213)	6,381
Net gains on sale of assets	(550)	(1,013)
Net gains on sale of securities	(773)	—
Write down and losses on assets	2,058	2,095
Impairment loss on investment securities	1,422	288
Decrease in interest receivable and other assets	504	770
Increase (decrease) in accrued interest payable and other liabilities	18	(518)
Net cash provided by operating activities	<u>1,653</u>	<u>3,006</u>
Cash Flows from Investing Activities		
Maturities of securities available for sale	9,250	6,289
Purchase of securities available for sale	(12,465)	—
Proceeds from sales of securities held for trading	8,732	—
Repayments of asset and mortgage-backed securities available for sale	19,877	32,281
Purchase of mortgage-backed securities available for sale	(25,300)	—
Proceeds from sale of loans held for sale	1,877	4,478
Decrease in Federal Home Loan Bank stock	8,599	—
Purchase of bank owned life insurance	(4,000)	—
Net decrease in other investments	221	50
Net decrease in loans	32,152	48,363
Proceeds from sales of other real estate owned	714	2,158
Premises and equipment expenditures	(336)	(146)
Net cash provided by investing activities	<u>39,321</u>	<u>93,473</u>
Cash Flows from Financing Activities		
Decrease in deposits	(27,902)	(70,941)
Repayments of Federal Home Loan Bank advances	(5,000)	(5,000)
Net increase (decrease) in short-term borrowings	630	(2,977)
Net cash used in financing activities	<u>(32,272)</u>	<u>(78,918)</u>
Net increase in cash and cash equivalents	8,702	17,561
Cash and cash equivalents, beginning of year	44,828	27,267
Cash and cash equivalents, end of year	<u>\$53,530</u>	<u>\$44,828</u>
Supplemental Cash Flow Information		
Cash paid (received) during the year for:		
Interest expense	\$3,323	\$5,798
Income taxes	—	(64)
Supplemental Disclosures of Noncash Activities		
Transfer of loans to other real estate owned	\$5,391	\$4,864
Transfer of loans held for sale to other real estate owned	—	709
Transfer of non-agency MBS to trading	11,242	—

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

Note 1-Significant Accounting Policies

Nature of Operations

CIB Marine Bancshares, Inc. (“CIB Marine”) is a financial services holding company which provides a full range of banking and related services through its banking subsidiary CIBM Bank and one non-bank subsidiary, which is in the process of winding down. References to “CIB Marine” include CIB Marine’s subsidiaries unless otherwise specified. The primary sources of revenue are loans to small and middle-market business customers and investments in securities. CIBM Bank also offers a range of deposit and other financial products to its customers. Its offices and, generally, customers are located in the central Illinois, Milwaukee and Indianapolis markets.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of CIB Marine and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The accompanying audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted (“GAAP”) in the United States (“U.S.”). References to GAAP as promulgated by the Financial Accounting Standards Board (“FASB”) are made according to sections of the Accounting Standards Codification (“ASC”) and to Accounting Standards Updates (“ASU”).

Certain amounts in the consolidated financial statements of prior periods have been reclassified to conform to the current period’s presentation.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 27, 2013, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including the allowance for loan losses, valuation of investments and impairment, if any, other real estate owned and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates used in the preparation of the consolidated financial statements are based on various factors, including the current interest rate environment, value of collateral securing loans and investments, assessed probabilities of default of obligors in loans and investment securities, recent sales of investments in the marketplace, recent sales and conditions in real estate markets and economic conditions, both locally and nationally. Changes in these factors can significantly affect CIB Marine’s net interest income, noninterest income and noninterest expense and the value of its recorded assets and liabilities and such changes could be material.

Cash Flows

For purposes of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheet caption “Cash and Due from Banks” which mature within ninety days.

Other Investments

Investments in limited partnerships and other equity investments that are not readily marketable are accounted for using the equity method when CIB Marine’s ownership is at least 3% in a limited partnership and 20% in a corporation, but not more than 50%. Investments not accounted for under the equity method are accounted for using the cost method. All other investments are periodically evaluated for impairments. If an investment is impaired, a loss is recognized. To determine whether an investment is impaired, CIB Marine looks to various indicators including recent transactions, if any, and the investee’s financial condition.

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

The equity method of accounting requires CIB Marine to record its proportionate share of income or loss as an increase or decrease in its investment and a corresponding gain or loss in noninterest income. Cash dividends or other distributions received by CIB Marine are recorded as reductions in the carrying amount of the investment.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value, determined on an individual loan basis. When a loan is transferred to held for sale, the loan's carrying value is compared to its fair value and any shortfall in value is recorded as a charge-off to the allowance for loan losses. All subsequent net declines in fair value of loans held for sale are recorded to noninterest expense. In the event that loans held for sale are reclassified to loans held in portfolio, the loans are transferred at lower of cost or fair value on the date of transfer, forming the new cost basis of such loans. The cash proceeds from the sale of loans that were reclassified from loans held in portfolio to loans held for sale are classified as investing activities in the Consolidated Statements of Cash Flows. Loans are generally sold with servicing rights released.

Investment Securities

Available for sale securities consist of equity securities, bonds, notes and other debt securities not classified as held to maturity securities or trading securities. Available for sale securities are carried at fair value with unrealized net gains and losses reported in accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity. Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis and more frequently when economic or market conditions warrant. CIB Marine evaluates securities in its portfolio for credit related OTTI by estimating discounted cash flows and comparing them to the amortized cost of each respective security. In evaluating OTTI, CIB Marine's management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether or not CIB Marine intends to sell or it is more likely than not CIB Marine will be required to sell the security prior to a period of time sufficient to allow for any anticipated recovery of fair value, and other factors as detailed in Note 3- Investment Securities. OTTI on securities related to credit losses or based on other factors where CIB Marine lacks the intent or ability to hold the security for a period of time sufficient to allow for an anticipated recovery, is included in noninterest income. OTTI on securities related to other factors but where CIB Marine has both the intent and ability to hold the security for a period of time sufficient to allow for an anticipated recovery is recorded in other comprehensive income (loss).

Realized securities net gains or losses on securities sales (using specific identification method) and declines in fair value below the amortized costs judged to be other-than-temporary are included in noninterest income as appropriate.

The amortized cost of available for sale securities is adjusted for amortization of premiums and accretion of discounts over the estimated remaining life of the security. Such amortization is calculated using the level-yield method, adjusted for prepayments on mortgaged-backed securities, and is included in interest income from investments.

CIB Marine engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Interest and dividends on trading securities are included in net interest income.

Loans

Loans that management has the intent and ability to hold to maturity for the foreseeable future are carried at the amount of unpaid principal, increased by costs to originate loans and premiums paid on purchased loans and reduced by net deferred fees and an allowance for loan losses. The accrual of interest on all classes of loans is generally discontinued when a loan becomes ninety days or more delinquent in accordance with the loan's contractual terms unless the credit is well secured and in process of collection. All classes of loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered by management to be doubtful. Unpaid interest that has previously been recorded as income is written off against interest income when a loan is placed on nonaccrual. Interest on loans is calculated by using the simple interest method on daily balances of the

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

principal amount outstanding. Interest payments received on loans which are on nonaccrual are generally applied to reduce the loan principal. Loans are returned to accrual status once a borrower has demonstrated repayment performance on the contractual schedule for a period of six consecutive months and the expectation is that contractual payments will continue to be made during the remaining term of the loan.

Loan origination fees are deferred and certain direct origination costs are capitalized. The amounts deferred and capitalized as well as premiums on purchased loans are included in the carrying amount of the loans and amortized over the estimated life of the loans as an adjustment of the yield of the related loan. Amortization of deferred loan fees and costs ceases when a loan is placed on nonaccrual. Fees for loans sold and other loan fees are included in the net gain or loss recognized on the sale.

Management considers a loan to be impaired when it is probable that CIB Marine will be unable to collect all amounts due according to the original contractual terms of the note agreement, including both principal and interest. CIB Marine has determined that commercial and consumer loan relationships that have nonaccrual status or have had their terms restructured in a troubled debt restructure (“TDR”) meet this definition.

A loan is accounted for as a TDR when a concession is granted to a borrower for economic or legal reasons related to the borrower’s financial difficulties that would not otherwise be considered. CIB Marine may restructure the loan by modifying the terms to reduce or defer cash payments required by the borrower, reduce the interest rate below current market rates for new debt with similar risk, reduce the face amount of the debt, or reduce the accrued interest. CIB Marine may utilize a multiple note structure as a workout alternative for certain commercial loans. The multiple note structure restructures a troubled loan into two notes, where the first note is reasonably assured of repayment and performance according to prudently modified terms, and the portion of the troubled loan that is not reasonably assured of repayment is generally charged-off. Troubled debt restructurings on nonaccrual status generally remain on nonaccrual status until the borrower’s financial condition supports the debt service requirements and at least a six-month payment history is sustained, and in some cases, a longer period is required. Once this assurance is reached the TDR is classified as a restructured accruing loan.

Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment records and the amount of the shortfall in relation to the principal and interest owed. Impairment testing includes the following: commercial, commercial real estate, and construction and development (collectively referred to as the “Commercial Segments”) nonaccrual loans greater than \$350,000; all TDR loans; substandard and doubtful loans; and all 90 days past due still accruing loans are individually evaluated for impairment each quarter. Nonaccrual loans below the threshold were collectively evaluated as homogeneous pools.

Consumer-related TDR loans are individually evaluated at the present value of expected future cash flows discounted at the loan’s effective interest rate. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, CIB Marine does not separately identify individual residential real estate, home equity or other consumer loans (collectively referred to as the “Consumer Segments”) for impairment unless they are TDRs.

Allowance for Loan Losses

The allowance for loan losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as reasonably estimable probable incurred losses in the loan portfolio, and represents management's estimate of losses inherent in the portfolio that may be recognized from loans that are not recoverable. The allowance for loan losses is established through a provision for loan losses charged to expense. Losses are charged against the allowance when management believes that the collectability of the principal amount is confirmed and where loans are transferred to loans held for sale at an amount less than the original carrying balance. Recoveries of amounts previously charged-off are credited to the allowance. A provision for (reversal of) loan losses, which is a charge against (credit to) earnings, is recorded to bring the allowance for loan losses to a level that, in management’s judgment, is appropriate to absorb reasonably estimated probable incurred losses in the loan

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

portfolio in accordance with U.S. GAAP. Any changes in impairment on loans, including loans evaluated based on the present value of cash flow, are charged against the allowance for loan losses or as an additional provision for loan losses. The provision for loan losses excludes the expense for probable incurred losses on unfunded loan commitments and standby letters of credit. Estimated losses on unfunded loan commitments and standby letters of credit are accrued and included in other liabilities. See also Note 4-Loans and Allowance for Loan Losses for additional discussion.

Consistent with regulatory guidelines and its loan policy, CIB Marine promptly charges-off certain commercial, commercial real estate, construction and development, residential real estate, home equity and other consumer loans when available information confirms that specific losses are uncollectible. Information that may be used in determining the uncollectible nature of a loan includes, but is not limited to, the deteriorating financial condition of the borrower, declining collateral values, and/or legal action, including bankruptcy, that impairs the borrower's ability to meet its obligations. For the purchased home equity pools, 100% of the outstanding principal balance of each loan in the pool is charged-off when a loan becomes 90 days past due.

Unpaid principal balance represents contractual principal amounts due to CIB Marine. Recorded investments is unpaid principal balances less previously recorded charges-offs and excludes accrued interest and deferred loan costs. At December 31, 2012, accrued interest receivable was \$0.8 million and deferred loan cost was \$1.2 million compared to accrued interest receivable of \$1.0 million and deferred loan cost of \$1.0 million at December 31, 2011.

An estimate of the amount of the balance of an impaired loan is assigned as a specific reserve to the loan based on the estimated present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral less costs to sell. For the Commercial Segments, loans which are not individually evaluated or are individually evaluated but found not to be impaired, CIB Marine makes estimates of losses for groups of loans. Loans are grouped by similar characteristics, including the type of loan, the assigned credit risk grade and the general collateral type. A loss rate reflecting the probable incurred losses in a group of loans is derived based upon estimates of expected loss rates for each group in part based upon CIB Marine's loss history and related migration analysis. The methodologies used to estimate the allowance for loan losses depend upon the impairment status and portfolio segment of the loan and utilize various migration analyses which generally consider historical loss experience for periods over the previous six to more than sixty months. The credit quality indicators discussed subsequently are based on this credit risk grading system. CIB Marine creates groupings of these grades for each loan class and calculates historic loss rates using of the most recent two-, three- and five-year moving averages of net charge-offs. Additionally, CIB Marine uses longer-term loss experience in its migration analysis that ultimately covers more than 15 years of historical charge-offs.

For Consumer Segments, loss rates are based on historical experience and require significant judgment in their determination. The historical loss rates are evaluated using a validation chart methodology, which has similarities to a migration analysis and currently spans more than ten years.

The reserve level for the purchased home equity pool is based on loss migration analysis for that pool, economic conditions such as overall employment data, stability of home prices in the states where the largest concentration of mortgages are held, delinquency trends of the portfolio, and levels of loan modification activity. Probable incurred losses that can be reasonably estimated are calculated using loss rates derived from recent experience of delinquent loans charge-offs and loss rates assigned to performing loans. The loan loss reserves are set within a range of the loan loss reserve estimates based on current trending net charge-off rates for the segment and after considering other environmental factors, including housing and labor market conditions. Loss rates are applied to the balances comprising the following segmentation: (1) 27-56 days past due, (2) 57-89 days past due and (3) and current. The balance of any loan more than 89 days past due is charged-off in its entirety. The loss rates for each delinquent segment consistent with their respective recent three-month moving average loss rate and the current segment on stressed historical loss rates for home equity loans. The calculated reserves are then stressed to get a better understanding of possible future loan losses that have not yet been incurred. Estimated monthly loss projections inherent in the allowance for loan losses are then compared to actual losses and adjustments to the allowance for loan losses, if necessary, are determined.

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

The resulting estimate of the quantitatively derived reserve level for each segment using historical loss experience is then reviewed and adjusted using qualitative criteria including: borrower and industry concentrations; levels and trends in delinquencies; charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience and ability of lending management; national and local economic conditions affecting interest rates; government spending; production; unemployment; industry conditions; effects of change in credit concentrations; off-balance sheet positions; real estate values; and vacancy rates for residential and commercial properties factor into CIB Marine's judgment regarding any subjective adjustments for each portfolio segment that may be warranted. The changes in these factors are then reviewed to ensure that changes in the allowance for loan loss reserve level are consistent with changes in these factors. The magnitude of the impact of each of these factors on the qualitative assessment of the reserve level changes from quarter to quarter according to the extent that these factors are already reflected in historic loss rates and according to the extent these factors diverge from one another. Consideration of the uncertainty inherent in the estimation process is also provided when evaluating the allowance for loan losses. The amount of the estimated impairment for individually evaluated loans and the estimate for collectively evaluated loans are added together for a total estimate of the allowance for loan losses.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed primarily using the straight-line method. Maintenance and repairs are charged to expense as incurred, while renewals and betterments are capitalized. Estimated useful lives of assets are 39 years for buildings and 3 to 10 years for furniture and equipment. Leasehold improvements included in premises and equipment are amortized over the shorter of the useful life of the improvements or the term of the lease. Rent expense on noncancellable leases is accrued on the straight-line basis over the term of the lease based upon minimum rents.

Other Real Estate Owned

Other real estate owned ("OREO") includes assets that have been received in satisfaction of debt. OREO is transferred at fair value less selling costs and subsequently measured for impairment. Any valuation adjustments required at the date of transfer to OREO are charged to the allowance for loan losses. OREO income in the consolidated statements of operations includes rental income from properties and gains on sales. Property expenses, which include carrying costs, required valuation adjustments and losses on sales, are reported as expenses in the consolidated statements of operations.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Stock-Based Compensation

Fair value has been estimated using the Black-Scholes model as defined in the accounting standards. Compensation cost is recognized for stock options based on the fair value of the option at the date of grant.

Income Taxes

Deferred income taxes are provided for temporary differences between the amounts reported for assets and liabilities for financial statement purposes and their tax basis. Deferred tax assets are recognized for temporary differences that are expected to be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

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CIB Marine and its subsidiaries file a consolidated federal income tax return and unitary, combined and separate state tax returns where required. CIB Marine has entered into tax allocation agreements with its subsidiary entities included in the consolidated U.S. federal and unitary or combined state income tax returns, including U.S. operations of companies held for sale or disposal. These agreements govern the timing and amount of income tax payments required by the various entities.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense (benefit).

CIB Marine provides for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. CIB Marine recognizes any interest and penalties related to unrecognized tax benefits in the provision for income tax. At December 31, 2012, CIB Marine management believes the amount is immaterial at December 31, 2012.

Business Segments

At December 31, 2012, CIB Marine determined it had one reportable continuing business segment. While CIB Marine's chief operating decision makers monitor the revenue streams of the various products and services, operations in all areas are managed, and financial performance is evaluated, on a corporate-wide basis.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed by dividing net income (loss) allocated to common stockholders by the weighted average number of shares outstanding during the periods. Diluted earnings (loss) per common share is computed by dividing net income (loss) allocated to common stockholders by the weighted average number of common shares adjusted for the dilutive effect of outstanding stock options and the potential conversion of Series B preferred stock. The dilutive effect of outstanding stock options, if any, is computed using the treasury stock method. Stock options deemed antidilutive are not included in the earnings (loss) per share calculation.

Derivative and Hedging Activities

CIB Marine uses certain derivative financial instruments to help manage its risk or exposure to changes in interest rates. All derivatives are recognized on the balance sheet at their fair value. On the date a derivative contract is entered into, CIB Marine designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("Fair-Value Hedge"), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("Cash-Flow Hedge"), or (3) an instrument with no hedging designation ("Stand-Alone Derivative"). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a Fair-Value Hedge, along with the loss or gain on the corresponding hedged asset or liability (including losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a Cash-Flow Hedge are recorded in other comprehensive income until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable rate asset or liability are recorded in earnings). Changes in the fair value of derivative trading instruments that do not qualify for hedge accounting are reported in current period earnings as non-interest income.

At the time the hedging instrument is entered into, CIB Marine formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as Fair-Value Hedges or Cash-Flow Hedges, to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. CIB Marine formally assesses, for all hedges, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions will be or have been highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in the future.

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CIB Marine discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designation of the derivative as a hedge instrument is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that are accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

In 2012, CIB Marine entered into interest rate swaps to hedge changes in the fair value of certain loans attributable to changes in market interest rates. CIB Marine primarily used interest rate swaps that effectively converted the fixed rate on the financial instruments to floating rate. These interest rate swaps have been designated as fair value hedges.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Such expenses are included in noninterest expense. Legal fees related to the defense of litigation are recognized as incurred.

New Accounting Pronouncements

In 2012, the Financial Accounting Standards Board (“FASB”) required companies to disclose more of the processes for valuing items categorized as Level 3 in the fair value hierarchy, provide quantitative information about the significant unobservable inputs used in the measurement and, in certain cases, explain how sensitive the measurements are to changes in the inputs. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on CIB Marine’s financial condition, results of operations or liquidity.

Note 2-Cash and Due from Banks

Reserves in the form of deposits with the Federal Reserve Bank and vault cash totaling \$4.3 million and \$5.5 million were maintained to satisfy federal regulatory requirements at December 31, 2012 and 2011, respectively. These amounts are included in cash and due from banks in the consolidated balance sheets.

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Note 3-Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of available for sale securities at December 31, 2012 and 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2012				
U.S. government agencies	\$ 10,678	\$ 120	\$ —	\$ 10,798
States and political subdivisions	26,503	1,803	577	27,729
Trust preferred collateralized debt obligations	8,079	—	4,185	3,894
Other debt obligation	150	—	—	150
Residential mortgage-backed securities (agencies)	37,256	1,130	105	38,281
Residential mortgage-backed securities (non-agencies (1))	4,564	69	4	4,629
Mutual funds	1,000	—	1	999
Total securities available for sale	<u>\$88,230</u>	<u>\$3,122</u>	<u>\$4,872</u>	<u>\$86,480</u>
December 31, 2011				
U.S. government agencies	\$ 7,006	\$ 65	\$ —	\$ 7,071
States and political subdivisions	28,611	1,835	502	29,944
Trust preferred collateralized debt obligations	8,295	—	5,061	3,234
Other debt obligation	150	—	—	150
Residential mortgage-backed securities (agencies)	25,075	1,435	—	26,510
Residential mortgage-backed securities (non-agencies (1))	23,649	149	1,698	22,100
Total securities available for sale	<u>\$92,786</u>	<u>\$3,484</u>	<u>\$7,261</u>	<u>\$89,009</u>

(1) Residential mortgage-backed securities (non-agencies) comprise non-agency issued mortgage-backed securities and collateralized mortgage obligations secured by residential real estate mortgage loans.

Trading securities at December 31, 2012 had an amortized cost of \$3.2 million and fair value of \$3.3 million. There were no trading securities at December 31, 2011.

Securities available for sale with a carrying value of \$42.8 million and \$47.1 million at December 31, 2012 and 2011, respectively, were pledged to secure public deposits, Federal Home Loan Bank of Chicago (“FHLBC”) advances, repurchase agreements, federal reserve discount window advances, a federal funds and letter of credit guidance facility at a correspondent bank, and for other purposes as required or permitted by law.

The amortized cost and fair value of available for sale securities at December 31, 2012, by contractual maturity, are shown below. Certain securities, other than mortgage-backed securities, may be called earlier than their maturity date. Expected maturities may differ from contractual maturities in mortgage-backed securities, because certain mortgages may be prepaid without penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following contractual maturity schedule.

	Amortized Cost	Fair Value
(Dollars in thousands)		
Due in one year or less	\$1,105	\$1,110
Due after one year through five years	11,521	12,273
Due after five years through ten years	14,027	14,496
Due after ten years	18,757	14,692
	<u>45,410</u>	<u>43,571</u>
Mutual funds	1,000	999
Residential mortgage-backed securities (agencies)	37,256	38,281
Residential mortgage-backed securities (non-agencies)	4,564	4,629
Total securities available for sale	<u>\$88,230</u>	<u>\$86,480</u>

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The following tables represent gross unrealized losses and the related fair value of available for sale securities aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011:

	Less than 12 months in an unrealized loss position		12 months or longer in an unrealized loss position		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2012						
States and political subdivisions	\$—	\$—	\$ 1,891	\$ 577	\$ 1,891	\$ 577
Trust preferred collateralized debt obligations	—	—	3,894	4,185	3,894	4,185
Residential mortgage-backed securities (agencies)	10,346	105	—	—	10,346	105
Residential mortgage-backed securities (non- agencies)	713	1	733	3	1,446	4
Mutual funds	999	1	—	—	999	1
Total securities with unrealized losses	\$12,058	\$107	\$6,518	\$4,765	\$ 18,576	\$4,872
Securities without unrealized losses					67,904	
Total securities					<u>\$86,480</u>	
December 31, 2011						
States and political subdivisions	\$1,628	\$33	\$ 1,996	\$ 469	\$ 3,624	\$ 502
Trust preferred collateralized debt obligations	—	—	3,234	5,061	3,234	5,061
Residential mortgage-backed securities (non- agencies)	3,417	33	10,702	1,665	14,119	1,698
Total securities with unrealized losses	\$5,045	\$66	\$15,932	\$7,195	\$ 20,977	\$7,261
Securities without unrealized losses					68,032	
Total securities					<u>\$89,009</u>	

Net unrealized losses on investment securities at December 31, 2012 were \$1.8 million compared to \$3.8 million at December 31, 2011. At December 31, 2012, trust preferred collateralized debt obligations (“TPCDOs”) accounted for \$4.2 million in net unrealized losses and the remaining securities had net unrealized gains of \$2.4 million at December 31, 2012.

During the second quarter of 2012, CIB Marine transferred at fair value its non-investment grade residential mortgage-backed securities (non-agencies) (“Non-agency MBS”) of \$11.2 million from available for sale to trading securities. The transfer resulted in OTTI write-down of its amortized cost basis through earnings of \$1.3 million. CIB Marine has the intent to sell the trading securities as part of its strategy to reduce its lower quality asset holdings. This represents a rare occurrence for CIB Marine for a number of reasons, including but not limited to: (1) there had been no prior transfers to trading at any time in CIB Marine’s history for fixed income securities, (2) the transfer represented all of the non-investment grade Non-agency MBS at that time, (3) the transfer was the result of a historically unique strategy to reduce non-investment grade Non-agency MBS, (4) the regulatory policy treatments of non-investment grade securities had some adverse effects, including the impact on risk-weighted assets for regulatory capital, and (5) to mitigate the expected risk of complying with new capital requirements under Basel III. During the third quarter of 2012, \$7.7 million par value of these securities were sold for a gain on sale of \$0.7 million.

States and Political Subdivisions (“Municipal Securities”). At December 31, 2012, for those Municipal Securities rated by nationally recognized statistical rating agencies, all were rated investment grade except one general obligation bond issued by the city of Detroit, Michigan issued in 2005. At December 31, 2012, this bond, is rated CC with a par value of \$2.5 million, amortized cost of \$2.5 million and fair market value of \$1.9 million, to be repaid with ad valorem property taxes and at December 31, 2011, this bond was rated B with a par value of \$2.5 million, amortized cost of \$2.5 million and fair market value of \$2.0 million. This bond was originally rated AAA. There was no credit-related OTTI at December 31, 2012, however, a failure by the city to bring its operating expenses in line with its revenues and other unforeseen factors could result in OTTI in the future. In addition, unrated Municipal Securities consisting of primarily general obligations issued by Wilkes-Barre, Pennsylvania totaled \$2.7 million par value, \$2.7 million amortized cost and \$2.7 million in fair value and are to be repaid with ad valorem property taxes. CIB Marine does not intend to sell, nor is it more likely than not that it will be required to sell, any of its Municipal Securities before recovery of their amortized cost bases, which may be maturity and CIB Marine does not expect a credit loss. As a result, CIB Marine has not recognized any credit or non-credit related OTTI on its Municipal Securities.

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Trust Preferred Collateralized Debt Obligations. At December 31, 2012, CIB Marine held four TPCDOs of \$8.5 million par value with an amortized cost of \$8.1 million and fair value of \$3.9 million. To a limited extent these securities are protected against credit loss by credit enhancements, such as over-collateralization and subordinated securities. Unless they are the most senior class security in the structure, however, they also may be subordinated to more senior classes as identified later in this section. All the TPCDOs have collateral pools and are not single-issuer securities. Preferred Term Securities, LTD (“PreTSLs”) 27 A-1 and 28 A-1 are the most senior classes where all other classes issued in those pools are subordinated to them, and PreTSLs 23 C-FP and 26 B-1 are mezzanine or subordinated classes - but not the most deeply subordinated classes of securities in their pools.

For TPCDO securities PreTSL 23 Class CF-P and PreTSL 26 Class B-1, CIB Marine had recorded \$0.2 million credit-related OTTI and placed them on nonaccrual status in years prior to 2011. There has been no new credit-related OTTI during 2011 or 2012. Deterioration in the financial industry could result in additional OTTI related to credit loss that would be recognized through a reduction in earnings. The \$4.2 million of unrealized losses recorded in the other comprehensive income at December 31, 2012 is largely related to deteriorations in credit quality of many of the issuers represented in the collateral pools and high liquidity premiums for securities of this type and quality. For CIB Marine’s holdings in PreTSL 23 and 26 at December 31, 2012, the deferrals and defaults of issuers in the collateral pools have risen to a level that holders of those securities began receiving “payments-in-kind” (“PIK”) at the June 2009 payment date. With the exception of the contractual PIK process, the TPCDOs were performing as to full and timely payments at December 31, 2012, as required under the respective contractual arrangements.

CIB Marine evaluates securities in its portfolio for credit-related OTTI by evaluating estimated discounted cash flows and comparing this to the current amortized cost of each respective security. When the estimated discounted cash flows are less than the current amortized cost of a security, a credit-related OTTI charge is recognized through earnings. To determine whether or not OTTI is evident in the TPCDOs, projected cash flows are discounted using the Index Rate plus the original discount margin. The Index Rate for each security is the 3-Month US Dollar London InterBank Offered Rate (“LIBOR”). The discount rates are as follows: LIBOR + 0.73% for PreTSL 23 C-FP, LIBOR + 0.56% for PreTSL 26 B-1, LIBOR + 0.30% for PreTSL 27 A-1 and LIBOR + 0.90% for PreTSL 28 A-1. Other key assumptions used in deriving cash flows for the pool of collateral for determining whether OTTI exists include default rate scenarios with annualized default rate vectors of 1.0% during 2013 and 0.25% thereafter, loss severity rates of approximately 85%, or a recovery rate of 15%, and prepayment speeds of approximately 1% per annum. All current defaults are applied a loss severity of 100%, or a recovery rate of 0%, and all current deferrals are applied a loss severity of 85%, or a recovery rate of 15%, with a two to five year recovery lag and all future deferral or default events are considered to be defaults with a two year recovery lag and loss severity of 85%, or a recovery rate of 15%.

Additional information related to the TPCDOs and related OTTI as of December 31, 2012 is provided in the table below:

	PreTSL 23	PreTSL 26	PreTSL 27	PreTSL 28
	(Dollars in thousands)			
Class	C-FP	B-1	A-1	A-1
Seniority	Mezzanine	Mezzanine	Senior	Senior
Amortized cost	\$747	\$3,845	\$1,728	\$1,759
Fair value	127	792	1,518	1,457
Unrealized loss	(620)	(3,053)	(210)	(302)
Total Credit-Related OTTI Recognized in Earnings (1)	(66)	(103)	—	—
Moody’s /S&P /Fitch Ratings	C/NR/C	Ca/NR/CC	Baa3/BB/BBB	Baa3/B/BBB
Percent of Current Deferrals and Defaults to Total Collateral Balances	26%	29%	27%	26%
Break in Yield (2)	16	24	43	42
Coverage (3)	(16)	(16)	26	29
Number of issues in performing collateral	92	47	33	38
Percent of expected deferrals & defaults to performing collateral (4)	8%	8%	8%	8%
Percent of excess subordination to performing collateral (5)	(10%)	(1%)	54%	57%

(1) Total OTTI recognized in earnings and AOCI reflect results since the acquisition date of the securities by CIB Marine, all of which was recognized prior to 2011.

(2) The percent of additional immediate defaults of performing collateral at a 85% loss severity rate that would cause a break in yield, meaning that the security would not receive all its contractual cash flows through maturity even though a class could enter a period where payments received are PIK but later paid in cash in addition to any accrued interest on the PIKs. Based on a collateral level

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analysis, PreTSL 23 and 26 projected deferrals and defaults indicate there would be a break in yield resulting in credit component OTTI.

- (3) The percentage points by which the class is over or (under) collateralized with respect to its collateral ratio thresholds at which cash payments are to be received from lower classes or directed to higher classes (i.e., if the coverage actual over (under) is negative). A current positive (negative) coverage ratio by itself does not necessarily mean that there will be a full receipt (shortfall) of contractual cash flows through maturity as actual results realized with respect to future defaults, default timing, loss severities, recovery timing, redirections of payments in other classes and other factors could act to cause (correct) a deficiency at a future date.
- (4) A point within a range of estimates for the percent of future deferrals and defaults to performing collateral used in assessing credit-related OTTI.
- (5) The excess subordination as a percentage of the remaining performing collateral is calculated by taking the difference of total performing collateral less the current class balances of senior classes divided by the current class balances of those senior to and including the respective class for which the measure is applicable.

Residential Mortgage-Backed Securities (Non-agencies). At December 31, 2012, available for sale Non-agency MBSs rated investment grade included \$3.0 million par value, \$3.0 million amortized cost and \$0.1 million unrealized gains; those rated below investment grade were \$1.6 million par value, \$1.6 million amortized cost and nominal unrealized loss. At December 31, 2012, held for trading Non-agency MBSs rated investment grade included securities with a total of \$0.5 million in par value and \$0.5 million in fair value; those below investment grade included securities with a total of \$2.9 million in par value and \$2.8 million in fair value. The decline of \$12.7 million in par value of securities rated below investment grade were primarily due to the sale of \$7.7 million and repayment of \$5.0 million in principal during 2012. At December 31, 2012, all of CIB Marine's residential mortgage backed securities were current in their principal and interest payments.

The predominant form of underlying collateral in the Non-agency MBSs is fixed-rate, first lien single family residential mortgages of both conforming and jumbo mortgage size, with both traditional and non-traditional underwriting qualities (e.g., prime jumbo, conforming Alt-A and jumbo Alt-A, each of which includes reduced documentation types). CIB Marine's Non-agency MBSs are senior in position to subordinated tranches of securities issued to absorb losses, to the extent they are still able, prior to CIB Marine's securities. The securities have issue dates between and including 2002 through 2006.

At December 31, 2012, for the combined held for trading and available for sale Non-Agency MBSs, the issues from 2004 or earlier represented \$4.6 million in par and amortized cost with a fair value of \$4.6 million, and the issue dates from 2005 through 2006 represented \$3.4 million par value, \$3.2 million in amortized cost with a fair value of \$3.3 million. At December 31, 2012, the balance-weighted mean and median percentages for each security of various delinquency and nonperformance measures to the total mortgage loans collateralizing those securities were: (1) 3.7% and 4.1%, respectively, for loans 60 or more days past due but not in foreclosure or transferred to OREO; (2) 3.3% and 3.1%, respectively, for loans in foreclosure plus OREO; and (3) 7.0% and 7.0%, respectively, for the total of loans 60 or more days past due, in foreclosure and OREO. With respect to the ratios reported in (3), the range across the securities was 0.0% to 19.4%. California represents a state level geographic concentration of 40% of the total residential mortgage collateral; no other state is more than 5%.

There were no Non-Agency MBSs with credit related OTTI at December 31, 2012 for those securities in the available for sale portfolio. During the first two quarters of 2012, CIB Marine recognized \$0.2 million in credit-related OTTI, all of these securities were subsequently transferred to the trading account at the end of the second quarter of 2012 and at the time of transfer CIB Marine recognized \$1.3 million in other OTTI through its non-interest income account as a result of CIB Marine's change in intent to sell the securities. During the second half of 2012, \$0.8 million in gains on securities were recorded through the non-interest income account on these securities as a result of price improvements, \$0.7 million in gains are related to \$7.7 million in par value of the trading accounts securities sold during the third quarter of 2012.

Mortgage-backed Securities (Agencies). At December 31, 2012, approximately 83% of the mortgage-backed securities held by CIB Marine were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. The decline in fair value is attributable to changes in interest rates and not credit quality. CIB Marine does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery as a result, CIB Marine does not consider these securities to be OTTI at December 31, 2012.

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Roll Forward of OTTI Related to Credit Loss. The following table is a roll forward of the amount of OTTI related to credit losses that has been recognized in earnings for which a portion of OTTI was recognized in AOCI for the years ended December 31, 2012 and 2011:

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Beginning of year balance of the amount related to credit losses on debt securities held by the entity at the beginning of the period for which a portion of OTTI was recognized in AOCI	\$1,478	\$1,190
Additions for the amount related to credit loss for which an OTTI was not previously recognized	—	14
Reduction for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	(1,470)	—
Additional increase to the amount related to the credit loss for which OTTI was previously recognized when the entity does not intend to sell the security and is it more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis	161	274
End of year balance of credit losses related to OTTI for which a portion was recognized in AOCI (1)	<u>\$169</u>	<u>\$1,478</u>

(1) The table includes a reduction of the OTTI activity related to the non-investment grade Non-agency RMBSs subsequently transferred to trading securities. The remaining end of period balances of \$0.2 million in credit losses related to OTTI for which a portion was recognized in AOCI is related to the TPCDOs only.

Note 4-Loans and Allowance for Loan Losses

Loans

The components of loans were as follows:

	At December 31, 2012		At December 31, 2011	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial	\$ 41,773	13.2%	\$ 44,385	12.4%
Commercial real estate	189,134	59.6	221,420	62.1
Construction and development	12,852	4.0	17,260	4.8
Residential real estate	23,911	7.5	16,593	4.7
Home equity	28,513	9.0	31,831	8.9
Purchased home equity pools	18,257	5.8	22,646	6.4
Other consumer	2,840	0.9	2,542	0.7
Gross loans	<u>317,280</u>	<u>100.0%</u>	<u>356,677</u>	<u>100.0%</u>
Deferred loan costs	1,223		955	
Loans	<u>318,503</u>		<u>357,632</u>	
Allowance for loan losses	<u>(11,378)</u>		<u>(16,128)</u>	
Loans, net	<u>\$ 307,125</u>		<u>\$ 341,504</u>	

CIB Marine serves the credit needs of its customers by offering a wide variety of loan programs to customers, primarily in Wisconsin, Illinois and Indiana. For financial institutions, significant loan concentrations may occur when groups of borrowers have similar economic characteristics and are similarly affected by changes in economic or other conditions. At December 31, 2012, significant concentrations exist in commercial real estate loans.

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The following table presents the aging of the recorded investment in past due loans at December 31, 2012 and 2011:

	December 31, 2012					Total
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	
	(Dollars in thousands)					
Accruing Loans						
Commercial	\$ —	\$ 732	\$ —	\$ 732	\$ 40,386	\$ 41,118
Commercial real estate:						
Owner occupied	3,987	—	—	3,987	53,104	57,091
Non-owner occupied	657	—	—	657	126,864	127,521
Construction and development	—	—	23	23	10,434	10,457
Residential real estate:						
Owner occupied	144	—	—	144	17,205	17,349
Non-owner occupied	99	—	—	99	5,768	5,867
Home equity	336	—	—	336	27,521	27,857
Purchased home equity pools	150	71	—	221	18,036	18,257
Other consumer	—	—	—	—	2,837	2,837
Deferred loan costs	21	3	—	24	1,199	1,223
Total	\$ 5,394	\$806	\$23	\$6,223	\$303,354	\$309,577
Nonaccrual Loans (1)						
Commercial	\$ —	\$ —	\$ 635	\$ 635	\$ 20	\$ 655
Commercial real estate:						
Owner occupied	—	—	—	—	881	881
Non-owner occupied	—	—	2,759	2,759	882	3,641
Construction and development	—	—	1,262	1,262	1,133	2,395
Residential real estate:						
Owner occupied	165	112	313	590	105	695
Non-owner occupied	—	—	—	—	—	—
Home equity	161	114	—	275	381	656
Purchased home equity pools	—	—	—	—	—	—
Other consumer	3	—	—	3	—	3
Deferred loan costs	—	—	—	—	—	—
Total	\$329	\$226	\$4,969	\$5,524	\$3,402	\$8,926
Total loans						
Commercial	\$ —	\$ 732	\$ 635	\$ 1,367	\$ 40,406	\$ 41,773
Commercial real estate:						
Owner occupied	3,987	—	—	3,987	53,985	57,972
Non-owner occupied	657	—	2,759	3,416	127,746	131,162
Construction and development	—	—	1,285	1,285	11,567	12,852
Residential real estate:						
Owner occupied	309	112	313	734	17,310	18,044
Non-owner occupied	99	—	—	99	5,768	5,867
Home equity	497	114	—	611	27,902	28,513
Purchased home equity pools	150	71	—	221	18,036	18,257
Other consumer	3	—	—	3	2,837	2,840
Deferred loan costs	21	3	—	24	1,199	1,223
Total	\$5,723	\$1,032	\$4,992	\$11,747	\$306,756	\$318,503

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

	December 31, 2011					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
	(Dollars in thousands)					
Accruing Loans						
Commercial	\$ 250	\$ —	\$ —	\$ 250	\$ 43,812	\$ 44,062
Commercial real estate:						
Owner occupied	34	—	—	34	56,332	56,366
Non-owner occupied	—	—	—	—	153,777	153,777
Construction and development	—	—	—	—	10,424	10,424
Residential real estate:						
Owner occupied	172	—	—	172	11,452	11,624
Non-owner occupied	—	—	—	—	4,377	4,377
Home equity	496	267	—	763	30,564	31,327
Purchased home equity pools	193	495	—	688	21,958	22,646
Other consumer	—	—	—	—	2,479	2,479
Deferred loan costs	3	2	—	5	950	955
Total	\$ 1,148	\$764	\$—	\$1,912	\$336,125	\$338,037
Nonaccrual Loans (1)						
Commercial	\$ —	\$ —	\$ 323	\$ 323	\$ —	\$ 323
Commercial real estate:						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	91	—	9,445	9,536	1,741	11,277
Construction and development	1,345	—	2,470	3,815	3,021	6,836
Residential real estate:						
Owner occupied	—	87	356	443	149	592
Non-owner occupied	—	—	—	—	—	—
Home equity	68	74	—	142	362	504
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	—	—	63	63
Deferred loan costs	—	—	—	—	—	—
Total	\$1,504	\$161	\$12,594	\$14,259	\$5,336	\$19,595
Total loans						
Commercial	\$ 250	\$ —	\$ 323	\$ 573	\$ 43,812	\$ 44,385
Commercial real estate:						
Owner occupied	34	—	—	34	56,332	56,366
Non-owner occupied	91	—	9,445	9,536	155,518	165,054
Construction and development	1,345	—	2,470	3,815	13,445	17,260
Residential real estate:						
Owner occupied	172	87	356	615	11,601	12,216
Non-owner occupied	—	—	—	—	4,377	4,377
Home equity	564	341	—	905	30,926	31,831
Purchased home equity pools	193	495	—	688	21,958	22,646
Other consumer	—	—	—	—	2,542	2,542
Deferred loan costs	3	2	—	5	950	955
Total	\$2,652	\$925	\$12,594	\$16,171	\$341,461	\$357,632

(1) Nonaccrual loans that are not past due often represent loans with deep collateral depreciation, and significantly deteriorated financial condition with weakened guarantors, where applicable, but have been able to make payments or bring loans current.

The following table lists information on nonaccrual, restructured and certain past due loans:

	At December 31,	
	2012	2011
	(Dollars in thousands)	
Nonaccrual-loans	\$8,926	\$19,595
Nonaccrual-loans held for sale	—	1,375
Restructured loans accruing	8,746	10,706
90 days or more past due and still accruing-loans	23	—

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

The following table presents the recorded investment by class of loans in nonaccrual and loans past due over 90 days and still accruing:

	At December 31,			
	Nonaccrual		Loans Past Due Over 90 Days on Accrual	
	2012	2011	2012	2011
	(Dollars in thousands)			
Commercial	\$ 655	\$ 323	\$—	\$—
Commercial real estate:				
Owner occupied	881	—	—	—
Non-owner occupied	3,641	11,277	—	—
Construction and development	2,395	6,836	23	—
Residential real estate:				
Owner occupied	695	592	—	—
Non-owner occupied	—	—	—	—
Home equity	656	504	—	—
Other consumer	3	63	—	—
Total	<u>\$8,926</u>	<u>\$19,595</u>	<u>\$23</u>	<u>\$—</u>

	At December 31,	
	2012	2011
	(Dollars in thousands)	
Impaired loans without a specific allowance	\$10,890	\$13,257
Impaired loans with a specific allowance	12,119	23,026
Total impaired loans	<u>\$23,009</u>	<u>\$36,283</u>

Payments received on impaired loans that are accruing are recognized in interest income according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are generally not recognized in interest income, but are applied as a reduction to the principal outstanding. The following table presents loans individually evaluated for impairment by class of loans at and for the years ended December 31, 2012 and 2011:

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
December 31, 2012					
<u>With no related allowance:</u>					
Commercial	\$ 343	\$ 181	\$ —	\$ 225	\$—
Commercial real estate:					
Owner occupied	916	568	—	114	—
Non-owner occupied	10,421	7,153	—	6,909	50
Construction and development	7,463	2,395	—	3,626	—
Residential real estate:					
Owner occupied	248	211	—	475	3
Non-owner occupied	—	—	—	—	—
Home equity	328	328	—	340	—
Purchased home equity pools	—	—	—	—	—
Other consumer	54	54	—	66	—
	<u>\$19,773</u>	<u>\$10,890</u>	<u>\$ —</u>	<u>\$11,755</u>	<u>\$53</u>
<u>With an allowance recorded:</u>					
Commercial	\$485	\$485	\$139	\$ 236	\$—
Commercial real estate:					
Owner occupied	3,160	3,160	515	5,153	90
Non-owner occupied	5,979	5,979	1,543	8,886	47
Construction and development	—	—	—	—	—
Residential real estate:					
Owner occupied	709	705	40	625	3
Non-owner occupied	—	—	—	—	—
Home equity	1,360	1,360	116	1,320	10
Purchased home equity pools	422	422	84	427	—
Other consumer	8	8	6	20	—
	<u>12,123</u>	<u>12,119</u>	<u>2,443</u>	<u>16,667</u>	<u>150</u>
Total	<u>\$31,896</u>	<u>\$23,009</u>	<u>\$2,443</u>	<u>\$28,422</u>	<u>\$203</u>

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The total amount of cash basis income recognized on impaired loans was immaterial for 2012.

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)					
December 31, 2011					
<u>With no related allowance:</u>					
Commercial	\$ —	\$ —	\$ —	\$ 221	\$19
Commercial real estate:					
Owner occupied	—	—	—	3,805	—
Non-owner occupied	7,892	5,680	—	7,115	31
Construction and development	13,388	6,799	—	9,098	43
Residential real estate:					
Owner occupied	336	336	—	398	2
Non-owner occupied	—	—	—	—	—
Home equity	363	363	—	305	1
Purchased home equity pools	—	—	—	—	—
Other consumer	78	79	—	91	—
	<u>\$22,057</u>	<u>\$13,257</u>	<u>\$ —</u>	<u>\$21,033</u>	<u>\$96</u>
<u>With an allowance recorded:</u>					
Commercial	\$336	\$336	\$126	\$ 1,432	\$9
Commercial real estate:					
Owner occupied	5,338	5,338	591	1,955	44
Non-owner occupied	15,215	15,215	4,571	12,255	97
Construction and development	—	—	—	1,051	—
Residential real estate:					
Owner occupied	421	417	62	517	6
Non-owner occupied	—	—	—	—	—
Home equity	1,218	1,218	71	1,667	6
Purchased home equity pools	432	432	70	462	—
Other consumer	70	70	37	21	—
	<u>23,030</u>	<u>23,026</u>	<u>5,528</u>	<u>19,360</u>	<u>162</u>
Total	<u>\$45,087</u>	<u>\$36,283</u>	<u>\$5,528</u>	<u>\$40,393</u>	<u>\$258</u>

The total amount of cash basis income recognized on impaired loans was immaterial for 2011.

Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Years Ended December 31,	
	2012	2011
(Dollars in thousands)		
Balance at beginning of year	\$16,128	\$14,645
Charge-offs	(9,587)	(11,468)
Recoveries	8,050	6,570
Net loan charge-offs	(1,537)	(4,898)
Provision for (reversal of) loan losses	(3,213)	6,381
Balance at end of year	<u>\$11,378</u>	<u>\$16,128</u>
Allowance for loan losses as a percentage of loans	<u>3.57%</u>	<u>4.51%</u>

CIB MARINE BANCSHARES, INC.
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A summary of the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2012 and 2011 is as follows.

At or For the Year Ended December 31, 2012								
Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total	
(Dollars in thousands)								
Balance at beginning of year	\$1,417	\$10,471	\$428	\$344	\$964	\$2,425	\$79	\$16,128
Provision (credit) for loan losses	(468)	(878)	791	(4)	604	(3,310)	52	(3,213)
Charge-offs	(162)	(5,688)	(826)	(37)	(723)	(2,054)	(97)	(9,587)
Recoveries	236	2,667	1	—	198	4,946	2	8,050
Balance at end of year	<u>\$1,023</u>	<u>\$6,572</u>	<u>\$394</u>	<u>\$303</u>	<u>\$1,043</u>	<u>\$2,007</u>	<u>\$36</u>	<u>\$11,378</u>

Allowance for loan losses:

Ending balance individually evaluated for impairment	\$139	\$2,058	\$—	\$40	\$116	\$84	\$6	\$2,443
Ending balance collectively evaluated for impairment	884	4,514	394	263	927	1,923	30	8,935

Loans:

Ending balance individually evaluated for impairment	\$666	\$16,860	\$2,395	\$916	\$1,688	\$422	\$62	\$23,009
Ending balance collectively evaluated for impairment	41,107	172,274	10,457	22,995	26,825	17,835	2,778	294,271

At or For the Year Ended December 31, 2011								
Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total	
(Dollars in thousands)								
Balance at beginning of year	\$2,691	\$7,466	\$873	\$351	\$856	\$2,349	\$59	\$14,645
Provision (credit) for loan losses	(1,433)	7,626	1,239	(6)	1,438	(2,521)	38	6,381
Charge-offs	—	(5,390)	(2,027)	(1)	(1,392)	(2,639)	(19)	(11,468)
Recoveries	159	769	343	—	62	5,236	1	6,570
Balance at end of year	<u>\$1,417</u>	<u>\$10,471</u>	<u>\$428</u>	<u>\$344</u>	<u>\$964</u>	<u>\$2,425</u>	<u>\$79</u>	<u>\$16,128</u>

Allowance for loan losses:

Ending balance individually evaluated for impairment	\$126	\$5,162	\$—	\$62	\$71	\$70	\$37	\$5,528
Ending balance collectively evaluated for impairment	1,291	5,309	428	282	893	2,355	42	10,600

Loans:

Ending balance individually evaluated for impairment	\$336	\$26,233	\$6,799	\$753	\$1,581	\$432	\$149	\$36,283
Ending balance collectively evaluated for impairment	44,049	195,187	10,461	15,840	30,250	22,214	2,393	320,394

Troubled Debt Restructurings

CIB Marine has allocated \$0.6 million and \$0.9 million of specific reserves to customers whose loan terms have been modified as TDR at December 31, 2012 and 2011, respectively. CIB Marine has no additional lending commitments at December 31, 2012 and 2011 to customers with outstanding loans that are classified as TDR.

At December 31, 2012, there were \$11.9 million of TDR loans, of which \$3.1 million were classified as nonaccrual and \$8.8 million were classified as restructured loans and accruing. The change in TDR loans from December 31, 2011 to December 31, 2012 was primarily due to \$6.9 million of payments and paid-off TDR loans offset by \$5.0 million of additional loans added to TDR. At December 31, 2011, there were \$14.5 million TDR loans, of which \$3.8 million were classified as nonaccrual and \$10.7 million were classified as restructured loans and accruing.

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Notes to Consolidated Financial Statements

The following tables show the modifications for TDRs made during 2012 and 2011, and TDRs for which there were payment defaults during the periods on modifications made during the prior twelve months:

	Years Ended December 31,					
	2012			2011		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructuring made during the year						
Commercial	1	\$20	\$20	—	\$—	\$—
Commercial real estate:						
Owner occupied	1	2,847	2,847	—	—	—
Non-owner occupied	—	—	—	3	4,797	3,539
Construction and development	1	1,133	1,133	1	294	209
Residential real estate:						
Owner occupied	2	176	176	1	67	67
Home equity	5	393	393	8	339	339
Other consumer	1	3	3	1	99	63
	11	\$4,572	\$4,572	14	\$5,596	\$4,217

	Years Ended December 31,			
	2012		2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled Debt Restructuring that subsequently defaulted				
Commercial real estate:				
Owner occupied	—	\$—	—	\$—
Non-owner occupied	—	—	3	1,664
Construction and development	—	—	1	209
Residential real estate:				
Owner occupied	2	176	1	7
Home equity	1	80	—	—
Other consumer	1	3	—	—
	4	\$259	5	\$1,880

For the years ending 2012 and 2011, net charge-offs related to troubled debt restructurings totalled \$0.6 million and \$5.1 million, respectively.

Credit Quality Indicators

CIB Marine categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CIB Marine analyzes commercial, commercial real estate and construction and development loans individually by classifying the loans as to credit risk. The process of analyzing loans for changes in risk rating is ongoing through quarterly monitoring of the portfolio, annual internal credit reviews for select loans and at the time of refinance or TDR and annual independent loan reviews that sample a majority of loan balances targeted to higher risk and higher concentrated areas of the portfolio. CIB Marine has engaged outside vendors approved by the board of directors to perform loan reviews annually, with the most recent having been performed during the third quarter of 2012. Management compares the results of such reviews to its own internal analysis and utilizes the results in support of current credit risk ratings and classifications. CIB Marine uses the following definitions for credit risk ratings:

Special Mention. 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.

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Substandard-Accrual. Loans classified as substandard-accrual have a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. Such loans are characterized by an increased possibility that the institution will sustain some loss if the deficiencies are not corrected; however, based on recent experience and expectations for future performance, they are on accrual status.

Substandard-Nonaccrual. Loans classified as substandard-nonaccrual have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Such loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected, and they are on nonaccrual status.

Doubtful. 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.

CIB Marine categorizes residential, home equity, the purchased home equity pools and other consumer loans into risk categories based on relevant information obtained at the time of origination about the ability of the borrower(s) to service their debt, such as current financial information, employment status and history, historical payment experience, credit scores, and type and amount of collateral among other factors. CIB Marine updates relevant information for these types of loans at the time of refinance, troubled debt restructuring or other indications of financial difficulty (e.g., past due status 90 days or more). All new loans are rated Pass at the time of origination. At origination, credit score and loan-to-value (“LTV”) play a significant role in the approval of the credit and borrowers are required to have a credit score above 640 and, where collateralized, a LTV of 100% or less depending on the type of collateral. CIB Bank does not originate subprime loans or non-traditional residential real estate loans. If new information obtained indicates deteriorated risk, the loan is downgraded using the same category descriptions as used for commercial, commercial real estate and construction and development loans. In addition, CIB Marine further considers current payment status as an indicator of which risk category to assign the borrower, but only in the direction of a deteriorated risk category. Loans past due 60-89 days are classified as substandard-accrual and loans 90 days or more past due are classified as doubtful. In the special case of the loans that are part of the purchased home equity pools, loans past due 27-86 days or a reduced documentation type with a LTV greater than 80% or a Fair Isaac Corporation (“FICO”) less than 780 at origination are considered substandard-accrual, and at 87 days past due they are charged-off in full. As a result there are no balances for these loans in substandard-nonaccrual or doubtful categories.

The greater the level of deteriorated risk as indicated by a loan's assigned risk category, the greater the likelihood a loss will occur in the future. If the loan is impaired then the loan loss reserves for the loan is recorded at the loans level of impairment. If the loan is not impaired, then its loan loss reserves are determined by the application of a loss rate that increases with risk in accordance with CIB Marine's allowance for loan loss policy.

Loans not meeting the criteria above for risk categorization as part of the above described processes are considered to be pass-rated loans. All loans are rated. At December 31, 2012 and 2011, the analysis performed the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard- Accrual	Substandard- Nonaccrual	Doubtful	Total Loans
	(Dollars in thousands)					
December 31, 2012						
Commercial	\$ 38,709	\$2,409	\$ —	\$ 655	\$—	\$ 41,773
Commercial real estate:						
Owner occupied	52,182	2,814	2,095	881	—	57,972
Non-owner occupied	110,996	8,860	7,665	3,641	—	131,162
Construction and development	10,119	338	—	2,395	—	12,852
Residential real estate:						
Owner occupied	16,484	267	598	382	313	18,044
Non-owner occupied	5,838	29	—	—	—	5,867
Home equity	26,769	367	721	656	—	28,513
Purchased home equity pools	12,439	—	5,818	—	—	18,257
Other consumer	2,820	12	5	3	—	2,840
	<u>\$276,356</u>	<u>\$15,096</u>	<u>\$16,902</u>	<u>\$8,613</u>	<u>\$313</u>	<u>317,280</u>
Deferred loan costs						1,223
Total						<u>\$318,503</u>

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	Pass	Special Mention	Substandard- Accrual	Substandard- Nonaccrual	Doubtful	Total Loans
(Dollars in thousands)						
December 31, 2011						
Commercial	\$ 35,847	\$7,367	\$ 848	\$ 323	\$—	\$ 44,385
Commercial real estate:						
Owner occupied	49,696	959	5,711	—	—	56,366
Non-owner occupied	128,156	15,733	9,888	11,277	—	165,054
Construction and development	8,981	1,184	259	6,836	—	17,260
Residential real estate:						
Owner occupied	10,368	762	494	236	356	12,216
Non-owner occupied	4,345	32	—	—	—	4,377
Home equity	29,884	359	1,084	504	—	31,831
Purchased home equity pools	14,997	—	7,649	—	—	22,646
Other consumer	2,220	251	8	63	—	2,542
	<u>\$284,494</u>	<u>\$26,647</u>	<u>\$25,941</u>	<u>\$19,239</u>	<u>\$356</u>	<u>356,677</u>
Deferred loan costs						955
Total						<u>\$357,632</u>

Director and Officer Loans

Certain directors and principal officers of CIB Marine and its subsidiaries, as well as companies with which those individuals are affiliated, are customers of and conduct banking transactions with CIBM Bank in the ordinary course of business. The loans to directors and principal officers were current at December 31, 2012. The activity in these loans during 2012 and 2011 is as follows:

	For the Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Balance at beginning of year	\$744	\$1,458
Repayments	(459)	(714)
Balance at end of year	<u>\$285</u>	<u>\$744</u>

Note 5-Premises and Equipment, net

The major classes of premises and equipment and accumulated depreciation are summarized as follows:

	At December 31,	
	2012	2011
	(Dollars in thousands)	
Land	\$1,145	\$1,146
Buildings	3,814	3,780
Leasehold improvements	870	1,128
Furniture and equipment	6,545	7,306
	<u>12,374</u>	<u>13,360</u>
Less: accumulated depreciation	(8,213)	(8,801)
	<u>\$4,161</u>	<u>\$4,559</u>

Depreciation expense for 2012 and 2011 was \$0.5 million and \$0.6 million, respectively. Total rental expense, which includes the acceleration of lease expense on branches closed, was \$0.7 million and \$0.9 million for 2012 and 2011, respectively.

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CIB Marine leases certain premises and equipment under noncancellable operating leases, which expire at various dates through 2022. Such noncancellable operating leases also include options to renew. The following is a schedule by years of annual future minimum rental commitments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at December 31, 2012.

	At December 31, 2012
	(Dollars in thousands)
2013	\$ 476
2014	373
2015	296
2016	251
2017	245
Thereafter	418
	\$ 2,059

Note 6-Other Real Estate Owned

A summary of OREO is as follows:

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Balance at beginning of year	\$ 7,088	\$ 5,314
Transfer of loans at net realizable value to OREO	5,391	5,573
Sale proceeds	(714)	(2,158)
Gain from sale of OREO	419	181
Write down and losses on sales of OREO	(1,691)	(1,822)
Balance at end of year	\$ 10,493	\$ 7,088

An analysis of the valuation allowance on OREO is as follows:

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Balance at beginning of year	\$426	\$575
Reduction from sales of real estate owned	(20)	(815)
Provision for write downs charged to operations	1,643	666
Balance at end of year	\$2,049	\$426

Net expenses from operations of OREO, gains/losses on disposals and write downs of properties were \$1.5 million and \$1.7 million for the years ended December 31, 2012 and 2011, respectively.

Note 7-Discontinued Operations

In December 2011, CIB Marine's wholly-owned subsidiary, CIB Construction, was liquidated and dissolved following the final liquidation distribution payment from its 84% owned subsidiary, Canron Corporation ("Canron"). As a result of the liquidation, Canron distributed payments of \$0.8 million in 2011 to CIB Marine which is reported as pretax income from discontinued operations on the income statement.

Note 8-Sale of Other Assets

At December 31, 2012 and 2011, other investments, reported in other assets totaled \$0.5 million and \$0.6 million, respectively. There were no other investment sales during 2012 and 2011. Impairment losses on other investments of \$0.1 million and \$0.2 million were recognized for the years ended December 31, 2012 and 2011, respectively.

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Note 9-Federal Home Loan Bank Chicago

As a member of the FHLBC, CIBM Bank is required to maintain minimum amounts of FHLBC stock as required by that institution. At December 31, 2012 and 2011, CIB Marine owned \$3.0 million and \$11.6 million, respectively, carrying value in FHLBC stock and the stock is carried at par, of which \$1.1 million and \$1.3 million, respectively, were required stock holdings with the FHLBC based on the asset size of CIBM Bank. During 2012, the FHLBC repurchased \$8.6 million of stock at par value. Impairment in FHLBC stock is recognized if CIB Marine concludes it is not probable that it will recover the par value of its investment. Due to the stock repurchases during 2012 and the improved long-term performance outlook of the FHLBC, no impairment has been recorded on the FHLBC stock during 2012 and 2011.

Note 10-Deposits

The aggregate amount of time deposits of \$100,000 or more at December 31, 2012 and 2011 was \$46.2 million and \$52.1 million, respectively. Included in time deposits are public deposits totaling \$3.1 million and \$3.0 million at December 31, 2012 and 2011, respectively, which were collateralized with pledged securities.

<u>Scheduled Maturities of Time Deposits</u>	<u>At December 31, 2012</u> (Dollars in thousands)
2013	\$78,201
2014	39,407
2015	13,230
2016	7,310
2017	5,465
Thereafter	11,288
	<u>\$154,901</u>

Note 11-Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. Federal funds purchased generally represent one-day borrowings. Securities sold under repurchase agreements represent borrowings maturing within one year that are collateralized by U.S. Treasury and Government Agency Securities. The following is a summary of short-term borrowings:

	<u>At or For the Years Ended December 31,</u>					
	<u>Balance</u>	<u>Weighted-Average Rate</u>	<u>% of Total Borrowings</u>	<u>Daily Average Balances</u>	<u>Weighted-Average Rate</u>	<u>Highest Balances at Month End</u>
Short-Term Borrowings	(Dollars in thousands)					
2012						
Securities sold under repurchase agreements	\$ 10,414	0.20%	100.0%	\$ 8,604	0.20%	\$ 10,483
2011						
Securities sold under repurchase agreements	\$ 9,784	0.21%	66.2%	\$ 8,130	0.19%	\$ 10,484
Treasury, tax and loan note	—	—	—	238	—	710
Total short-term borrowings	<u>\$ 9,784</u>	<u>0.21%</u>	<u>66.2%</u>	<u>\$ 8,368</u>	<u>0.19%</u>	

Securities sold under repurchase agreements were primarily to commercial customers of CIBM Bank under overnight repurchase sweep arrangements.

Note 12-Long-Term Borrowings

	<u>At December 31,</u>					
	<u>2012</u>			<u>2011</u>		
<u>Balance</u>	<u>Average Rate</u>	<u>% of Total Borrowings</u>	<u>Balance</u>	<u>Average Rate</u>	<u>% of Total Borrowings</u>	
(Dollars in thousands)						
Long-Term Borrowings						
Federal Home Loan Bank	\$—	—%	—%	\$5,000	4.21%	33.8%

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CIB Marine is required to maintain qualifying collateral as security for both short-term and long-term FHLBC borrowings. There are currently no long-term borrowings outstanding due to maturity. CIBM Bank had assets pledged at the FHLBC sufficient to support total borrowings of \$35.5 million at December 31, 2012.

Note 13-Stockholders' Equity

Preferred Stock

The key terms of the CIB Marine Preferred issued on December 30, 2009 are as follows:

	Series A	Series B
Securities issued	Stated value of \$47.3 million, 55,624 shares issued, par value-\$1.00 and liquidation value-\$1,000 per share	Stated value of \$3.7 million, 4,376 shares issued, par value-\$1.00 and liquidation value-\$1,000 per share
Convertibility to common	None	Each share convertible into 4,000 shares of common stock only upon consummation of a merger transaction where CIB Marine is not the surviving entity and where holders have voting rights
Dividends	7% fixed rate noncumulative, payable quarterly and subject to regulatory approval	7% fixed rate noncumulative payable quarterly and subject to regulatory approval
Redemption/maturity	No stated redemption date and holders cannot compel redemption	No stated redemption date and holders cannot compel redemption
Voting rights	No voting rights unless transaction (merger, share exchange or business combination) would be prejudicial to holders	No voting rights unless transaction (merger, share exchange or business combination) would be prejudicial to holders

If all Series B Preferred stockholders were to convert their shares in connection with a merger, they would own approximately 49% of the outstanding common stock of CIB Marine.

Treasury Stock

CIBM Bank acquired certain shares of CIB Marine stock through collection efforts when the borrowers defaulted on their loans. Any loan balance in excess of the estimated fair value of the stock and other collateral received was charged to the allowance for loan losses. At both December 31, 2012 and 2011, 7,452 shares of treasury stock were directly owned by CIBM Bank and thus were not excluded from the number of shares outstanding.

Regulatory Action and Capital

At both December 31, 2012 and 2011, CIB Marine was subject to a Written Agreement ("Written Agreement") entered into with the Federal Reserve Bank of Chicago ("Federal Reserve Bank") in the second quarter of 2004. The Written Agreement requires CIB Marine, among other things, to obtain Federal Reserve Bank approval before incurring additional borrowings or debt and also requires CIB Marine to maintain a sufficient capital position for the consolidated organization, including the current and future capital requirements of its subsidiary bank, nonbank subsidiaries and the consolidated organization. CIB Marine is prohibited from paying any dividends or redeeming or repurchasing any stock without Federal Reserve Bank consent pursuant to the Written Agreement.

At both December 31, 2012 and 2011, CIB Marine's wholly-owned subsidiary bank, CIBM Bank, was under a Consent Order ("Consent Order") with the Federal Deposit Insurance Corporation ("FDIC") and the Illinois

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Department of Financial and Professional Regulation, Division of Banking (“IDFPR”). The Consent Order required CIBM Bank, among other things, to maintain a minimum Tier 1 leverage ratio of 10% and a minimum total risk-based capital ratio of 12%.

Effective February 14, 2013, CIBM Bank entered into revised regulatory requirements with the FDIC and IDFPR. The Consent Order is being terminated in conjunction with the adoption of the revised regulatory requirements. The Consent Order required CIBM Bank to take specific steps regarding, among other things, its management, capital levels, asset quality, lending practices, liquidity and profitability in order to improve the safety and soundness of CIBM Bank's operations. The FDIC and the IDFPR terminated the Consent Order as a result of CIBM Bank's improvement with regard to these matters. Notwithstanding the forgoing, under the revised regulatory requirements CIBM Bank remains subject to certain restrictions imposed by the FDIC and IDFPR, including but not limited to maintaining a Tier 1 capital leverage ratio of 8% and Total risk-based capital ratio of 12%, as well as certain restrictions on its ability to pay dividends.

At both December 31, 2012 and 2011, CIB Marine’s capital ratios were above the minimum levels required by the Written Agreement. At December 31, 2012 and 2011, CIBM Bank was in compliance with the minimum capital requirements as set forth in the Consent Order and was in substantial compliance with the other requirements set forth in the Consent Order. CIBM Bank was classified as “adequately capitalized” as of December 31, 2012.

CIB Marine and CIBM Bank are subject to various regulatory capital requirements administered by the banking agencies. Pursuant to federal bank holding company and bank regulations, CIB Marine and CIBM Bank are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated in accordance with specific instructions included in the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank’s assets and certain off-balance sheet items as calculated under regulatory accounting practices. A bank’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. To be categorized as well capitalized, a bank must maintain total risk adjusted capital, Tier 1 capital and Tier 1 leverage ratios of 10.0%, 6.0% and 5.0%, respectively, and not be subject to any written agreement, order, capital directives or prompt corrective action directive issued by the Federal Reserve Bank in the case of CIB Marine or the FDIC in the case of CIBM Bank.

There are five capital categories defined in the regulations: well capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Classification of CIBM Bank in any of the undercapitalized categories can result in certain mandatory and possible additional discretionary actions by regulators that could have a direct material effect on the consolidated financial statements.

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At both December 31, 2012 and 2011, CIBM Bank's Tier 1 leverage and risk-based capital ratios were in excess of the minimum ratios for capital adequacy purposes and hence, CIBM Bank was considered to be classified as adequately-capitalized under the regulatory definitions. The actual and required capital amounts and ratios (as defined in the regulations) for CIB Marine and CIBM Bank are presented in the tables below. As noted earlier, CIBM Bank was subject to the Consent Order at December 31, 2012 and 2011 requiring it to maintain capital at a level greater than the quantitative level required to be considered "well capitalized" under applicable regulations.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Provisions		Minimum Required Pursuant to the Consent Order (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012								
Total capital to risk weighted assets								
CIB Marine Bancshares, Inc.	\$74,260	19.34%	\$30,719	8.00%				
CIBM Bank	63,307	16.68	30,367	8.00	\$37,958	10.00%	\$45,550	12.00%
Tier 1 capital to risk weighted assets								
CIB Marine Bancshares, Inc.	\$69,379	18.07%	\$15,360	4.00%				
CIBM Bank	58,481	15.41	15,183	4.00	\$22,775	N/A	N/A	N/A
Tier 1 leverage to average assets								
CIB Marine Bancshares, Inc.	\$69,379	14.39%	\$19,287	4.00%				
CIBM Bank	58,481	12.24	19,117	4.00	\$23,896	5.00%	\$47,792	10.00%
December 31, 2011								
Total capital to risk weighted assets								
CIB Marine Bancshares, Inc.	\$73,566	16.93%	\$34,772	8.00%				
CIBM Bank	61,489	14.26	34,489	8.00	\$43,111	10.00%	\$51,733	12.00%
Tier 1 capital to risk weighted assets								
CIB Marine Bancshares, Inc.	\$67,999	15.64%	\$17,386	4.00%				
CIBM Bank	55,969	12.98	17,244	4.00	\$25,867	N/A	N/A	N/A
Tier 1 leverage to average assets								
CIB Marine Bancshares, Inc.	\$67,999	13.15%	\$20,685	4.00%				
CIBM Bank	55,969	10.93	20,473	4.00	\$25,592	5.00%	\$51,184	10.00%

(1) Under the revised regulatory requirements effective February 14, 2013, CIBM Bank is required to maintain a minimum Tier 1 ratio of 8% and capital-to-risk based of 12%.

No capital contributions were made by CIB Marine to CIBM Bank in 2012 and 2011.

The payment of dividends by banking subsidiaries is subject to regulatory restrictions by various federal and/or state regulatory authorities. In addition, dividends paid by bank subsidiaries are further limited if the effect would result in a bank subsidiary's capital being reduced below applicable minimum capital amounts. CIB Marine did not receive any dividend payments from CIBM Bank during 2012 or in 2011. CIBM Bank did not have any retained earnings available for the payment of dividends to CIB Marine without first obtaining the consent of the regulators. Moreover, under the consent order CIBM Bank is prohibited from declaring or paying dividends to CIB Marine without prior regulatory approval. In 2011, the parent company of CIB Marine received returns of capital from its non-bank subsidiaries of \$0.8 million. No dividends were paid to CIB Marine from its non-bank subsidiaries in 2012.

Bank. CIB Marine is also prohibited under its Articles of Incorporations from paying any dividends on its common stock unless the quarterly dividend on its preferred stock has been paid in full for four consecutive quarters. No dividends have been declared or paid to date on CIB Marine's preferred stock.

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Note 14-Earnings (Loss) Per Share

The following provides a reconciliation of basic and diluted earnings (loss) per share:

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Income (loss) from continuing operations	\$1,367	\$(6,205)
Income from discontinued operations	—	781
Net income (loss)	1,367	(5,424)
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$1,367	\$(5,424)
Weighted average shares outstanding:		
Total weighted average common shares outstanding	18,135,344	18,135,344
Shares owned by CIBM Bank	(7,452)	(7,452)
Weighted average common shares outstanding	18,127,892	18,127,892
Effect of dilutive stock options outstanding	—	—
Basic	18,127,892	18,127,892
Assumed conversion of Series B preferred to common	17,504,000	—
Diluted	35,631,892	18,127,892
Earnings (loss) per share :		
Basic:		
Income (loss) from continuing operations	\$0.08	\$(0.34)
Income from discontinued operations	—	0.04
Net income (loss)	\$0.08	\$(0.30)
Diluted:		
Income (loss) from continuing operations	\$0.04	\$(0.34)
Income from discontinued operations	—	0.04
Net income (loss)	\$0.04	\$(0.30)

Options to purchase 393,464 and 443,606 shares of common stock for the years ended December 31, 2012 and 2011, respectively, were excluded from the calculation of diluted earnings (loss) per share because the exercise price of the outstanding stock options was greater than the average market price of the common shares (anti-dilutive options).

At December 31, 2012 and 2011, the assumed conversion of Series B Preferred represents a potential common stock issuance of 17.5 million shares. The effect of the potential issuance of common stock associated with the Series B Preferred was deemed to be anti-dilutive and, therefore, was excluded from the calculation of diluted loss per share for the period ending December 31, 2011.

Note 15-Derivatives

The following table reflects the fair value hedges included in the Consolidated Statements of Income and Comprehensive Income.

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Change in fair value of interest rate swaps hedging designated loans included in other noninterest income	\$(94)	\$—
Change in fair value on loans, the hedged items included in other noninterest income	94	—

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The following table reflects the fair value hedges included in the Consolidated Balance Sheets.

	At December 31,			
	2012		2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate swaps related to loans	\$900	\$3	\$—	\$—
Included in other liabilities:				
Interest rate swaps related to loans	\$10,780	\$98	—	—

CIB Marine utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. All the interest rate swaps in the tables above are used to hedge the change in fair value of the hedged items (i.e., the fixed rate loans) due to changes the underlying benchmark interest rate, the US dollar LIBOR interest rate swap rate. The combined effect of the interest rate swaps and the fixed rate loans being hedged is to convert fixed interest rate payments on the hedged items to floating rate as a spread to the US dollar one month LIBOR. The interest income (expense) from the interest rate swaps is presented with the loan interest income.

Note 16-Commitments, Contingencies and Off-Balance Sheet Risk

The following table summarizes the contractual or notional amount of off-balance sheet financial instruments with credit risk.

	At December 31,	
	2012	2011
	(Dollars in thousands)	
Commitments to extend credit:		
Fixed	\$1,445	\$1,724
Variable	32,980	30,110
Standby letters of credit	2,094	2,385
Interest rate swaps	11,680	—

CIB Marine is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. CIB Marine has entered into commitments to extend credit and on a limited basis to make certain other investments in non-affiliated entities, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. CIB Marine considers the facts and circumstances of each of the other commitments, as well as the historical losses, if any, and the relevant economic conditions to inform management's judgment regarding changes for related credit exposures.

Standby letters of credit are conditional commitments that CIB Marine issues to guarantee the performance of a customer to a third-party. Fees received to issue standby letters of credit are deferred and recognized as noninterest income over the term of the commitment. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond funding, and other similar transactions. CIB Marine issues commercial letters of credit on behalf of customers to help ensure payments or collection in connection with trade transactions. In the event of a customer's nonperformance, CIB Marine's loan loss exposure is the same as in any extension of credit, up to the letter's contractual amount. Management assesses the borrower's financial condition to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring CIB Marine to fund letters of credit may not occur, CIB Marine expects its future cash requirements to be less than the total outstanding commitments. The maximum potential future payments guaranteed by CIB Marine under standby letter of credit arrangements was \$2.1 million and \$2.4 million with a weighted average term of approximately 12 months and 11 months at December 31, 2012 and 2011, respectively. The standby letters of credit for which reserves were established were participated to nonaffiliated banks. CIB Marine did not default on any payment obligations with the other banks.

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee except for overdraft lines of credit, which a fixed maturity date is not established. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. CIB Marine evaluates each customer's creditworthiness and determines the amount of the collateral necessary based on management's credit evaluation of the counterparty. Collateral held varies, but may include marketable securities, accounts receivable, inventories, property and equipment, and real estate. The interest rates range between 2.24% and 18.00% with a weighted average of 3.99%. The maturity dates range between January 2013 and open dated, the latter is related to overdraft protection accounts. For commercial commitments to extend credit, totaling \$24.2 million, the maturity dates range between January 2013 and May 2020 with a weighted average of nine months.

CIB Marine and CIBM Bank engage in legal actions and proceedings, both as plaintiffs and defendants, from time to time in the ordinary course of business. In some instances, such actions and proceedings involve substantial claims for compensatory or punitive damages or involve claims for an unspecified amount of damages. There are, however, presently no proceedings pending or contemplated which, in CIB Marine's opinion, would have a material adverse effect on its consolidated financial position.

CIB Marine did not recognize any litigation settlement or loss contingency expenses in 2012 or 2011.

Note 17-Fair Value

The following tables present information about CIB Marine's assets measured at fair value on a recurring basis at December 31, 2012 and 2011, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that CIB Marine has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

Description	Fair Value	Fair Value for Measurements Made on a Recurring Basis		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2012				
Assets				
U.S. government agencies (SBA loan-backed)	\$ 10,798	\$—	\$10,798	\$—
States and political subdivisions	27,729	—	27,729	—
Trust preferred securities collateralized debt obligations	3,894	—	—	3,894
Other debt obligations	150	—	150	—
Residential mortgage-backed securities (agencies)	38,281	—	38,281	—
Residential mortgage-backed securities (non-agencies) ⁽¹⁾	4,629	—	4,629	—
Mutual Funds	999	—	999	—
Total securities available for sale	86,480	—	82,586	3,894
Trading securities ⁽²⁾	3,273	—	—	3,273
Interest rate swaps	3	—	3	—
Total assets	\$89,756	\$—	\$82,589	\$7,167
Liabilities				
Interest rate swaps	\$98	\$—	\$98	\$—
Total liabilities	\$98	\$—	\$98	\$—

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Description	Fair Value	Fair Value for Measurements Made on a Recurring Basis		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2011				
Assets				
U.S. government agencies	\$ 7,071	\$—	\$ 7,071	\$ —
States and political subdivisions	29,944	—	29,944	—
Trust preferred securities collateralized debt obligations	3,234	—	—	3,234
Other debt obligations	150	—	150	—
Residential mortgage-backed securities (agencies)	26,510	—	26,510	—
Residential mortgage-backed securities (non-agencies)	22,100	—	22,100	—
Total securities	\$89,009	\$—	\$85,775	\$3,234

- (1) Securities of \$11.2 million were transferred to trading securities on June 30, 2012.
(2) Non-agency MBS below investment grade were transferred from Level 2 to Level 3 during 2012. Fair value estimates for the securities transferred into Level 3 is now based on market approach with significant unobservable inputs and significant adjustments.

Selected additional information regarding the model inputs and assumptions used to value certain Level 3 Inputs include the following at December 31, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
(Dollars in Thousands)				
TPCDOs	\$3,894	Discounted cash flow	Constant prepayment rate	1.0%-1.0% (1.0%)
			Loss severity	85%-85% (85%)
Trading securities	\$3,273	Market approach	Security prices	\$87-\$100 (\$96)
Loans held for sale	347	Market approach	Loan prices	\$13-\$47 (\$18)

The following table present information about CIB Marine's assets and liabilities measured at fair value on a non-recurring basis at December 31, 2012 and December 31, 2011.

Description	Fair Value	Fair Value for Measurements Made on a Nonrecurring Basis			Total Gains (Losses) Year-to-Date
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)					
December 31, 2012					
Assets					
Loans held for sale:					
Commercial real estate	\$ 140	\$—	\$ —	\$ 140	\$ —
Construction and development	207	—	—	207	104
Impaired loans (1)					
Commercial	507	—	507	—	(116)
Commercial real estate	4,558	—	4,558	—	56
Construction and development	1,262	—	1,262	—	(685)
Residential real estate	211	—	211	—	(3)
Home equity	351	—	351	—	(51)
Purchased home equity pools	—	—	—	—	—
Other consumer	53	—	53	—	(31)
Total impaired loans	6,942	—	6,942	—	(830)
Other real estate owned:					
Commercial real estate	3,356	—	3,356	—	376
Construction and development	5,785	—	5,785	—	(1,606)
Residential real estate	1,352	—	1,352	—	(42)
Total	\$17,782	\$—	\$17,435	\$347	\$(1,998)

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Description	Fair Value	Fair Value for Measurements Made on a Nonrecurring Basis			Total Gains (Losses) Year-to-Date
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)					
December 31, 2011					
Assets					
Loans held for sale:					
Commercial real estate	\$ 166	\$—	\$ —	\$ 166	\$ 818
Construction and development	1,954	—	—	1,954	(139)
Impaired loans (1)					
Commercial	—	—	—	—	848
Commercial real estate	6,126	—	6,126	—	(2,406)
Construction and development	4,752	—	4,752	—	(474)
Residential real estate	43	—	43	—	18
Home equity	259	—	259	—	(71)
Purchased home equity pools	—	—	—	—	—
Other consumer	111	—	111	—	(31)
Total impaired loans	11,291	—	11,291	—	(2,116)
Other real estate owned:					
Commercial	41	—	41	—	(47)
Commercial real estate	5,688	—	5,688	—	(1,594)
Construction and development	1,359	—	1,359	—	—
Residential real estate	—	—	—	—	(69)
Total	\$20,499	\$—	\$18,379	\$2,120	\$(3,147)

(1) Impaired loans gains (losses) include only those attributable to the loans represented in the fair value measurements for December 31, 2012 and December 31, 2011. Total impaired loans at December 31, 2012 and December 31, 2011 were \$23.0 million and \$36.3 million, respectively.

The following table presents a roll forward of fair values measured on a recurring and nonrecurring basis using significant unobservable inputs (Level 3) for the periods presented.

	For Years Ended December 31,	
	2012	2011
Loans held for Sale		
Balance at beginning of year	\$2,120	\$6,628
Write down	(2)	(139)
Gain on sale	106	818
Settlements	(1,877)	(5,187)
Balance at end of year	\$ 347	\$2,120
Other Equity Investments		
Balance at beginning of year	\$ —	\$ 65
Write down	—	(65)
Gain on sale	—	—
Settlements	—	—
Balance at end of year	\$ —	\$ —
Trading Securities		
Balance at beginning of year	\$ —	\$ —
Total gains included in earnings	773	—
Transfer from Level 2 available for sale securities	11,242	—
Settlements	(2,629)	—
Sales	(6,113)	—
Balance at end of year	\$3,273	\$ —
Available for Sale Securities		
Balance at beginning of year	\$3,234	\$2,985
Total gains included in other comprehensive income	828	273
Settlements	(168)	(24)
Balance at end of year	\$3,894	\$3,234

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Gains and losses (realized and unrealized) for assets and liabilities reported at fair value on a recurring basis included in earnings for the year ended December 31, 2012 and 2011 (above) are reported in other revenues as follows:

	For the Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Other Revenues		
Total gains or losses in earnings (or changes in net assets) for the period	\$ 773	\$ —
Change in unrealized gains or losses relating to assets still held at reporting date	\$ 828	\$ 273

The following section describes the valuation methodologies used to measure recurring financial instruments at fair value, including the classification of related pricing inputs.

Trading Securities. The fair values of trading securities are Level 3 inputs and were primarily non-investment grade Non-agency MBS with fair values measured using the market approach, with significant unobservable and adjusted inputs.

Securities Available for Sale. Where quoted market prices are available from active markets with high volumes of frequent trades for identical securities, the security is presented as a Level 1 input security. These would include predominantly U.S. Treasury Bills, Notes and Bonds. Securities classified under Level 2 inputs include those where quoted market prices are available from an active market of similar but not identical securities, where pricing models use the U.S. Treasury or LIBOR swap yield curves, where market quoted volatilities are used, and where correlated or market corroborated inputs are used such as prepayment speeds, expected default and loss severity rates. Securities with predominantly Level 2 inputs and using a market approach to valuation include U.S. government agency and government sponsored enterprise issued securities and mortgage-backed securities, certain corporate or foreign sovereign debt securities, non-agency mortgage-backed securities, other asset-backed securities, equity securities with quoted market prices but low or infrequent trades and debt obligations of states and political subdivisions. Where Level 1 or Level 2 inputs are either not available, or are significantly adjusted, the securities are classified under Level 3 inputs. The available for sale securities using Level 3 inputs were TPCDOs with fair values measured using predominantly the income valuation approach (present value technique), where expected future cash flows less expected losses were discounted using a discount rate consisting of benchmark interest rates plus credit, liquidity and option premium spreads from similar and comparable, but not identical, types of debt instruments and from models.

Derivative financial instrument (interest rate-related instruments): CIB Marine uses interest rate swaps to manage its interest rate risk. The valuation of CIB Marine's derivative financial instruments is determined using discounted cash flow models on the expected cash flows of each derivative. See Note 15, "Derivatives," for additional disclosure regarding CIB Marine's derivative financial instruments. The discounted cash flow analysis component in the fair value measurements reflects the contractual terms of the derivative financial instruments, including the period to maturity, and uses observable market-based inputs, including interest rate curves. More specifically, the fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments), with the variable cash payments (or receipts) based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CIB Marine determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy. The credit valuation adjustments, if any, utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. CIB Marine has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions as of December 31, 2012, and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative financial instruments. Therefore, CIB Marine has determined that the fair value measures of its derivative financial instruments in their entirety are classified within Level 2 of the fair value hierarchy.

Loans Held for Sale. The fair value of loans held for sale, consisting primarily of commercial real estate loans are carried at the lower of cost or fair value, which is estimated based on indicative and general sale price levels for commercial real estate loans of similar quality and current prices for similar residential real estate loans offered by mortgage correspondent banks. Due to limited market activity in specific loan assets, all other loans designated as held for sale are valued predominantly using unobservable inputs classified under Level 3 inputs. These inputs include indicative prices, loan discount rates and general loan market price level information for loans of similar

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type and quality. A market approach is the primary valuation technique used to measure the fair value of loans held for sale.

Impaired Loans. Impairment losses are included in the allowance for loan losses. At the time a loan is considered impaired it is valued at the lower of cost or fair value. The impairment loss is based on Level 2 quoted market price inputs, a discounted cash flow analysis, or a fair value estimate of the collateral using Level 2 inputs, including primarily the appraised value of the real estate with certain other market correlated or corroborated information. The fair value of impaired loans represented in the fair value table includes only those loans that are carried at their fair value and at this time would only include those with an impairment loss either reserved for as a specific reserve or charged-off where that impairment loss was determined using a market approach to valuation based upon a fair value estimate of the collateral. For real estate collateral, that is done using an appraised value of the real estate with certain other market correlated or corroborated information as assessed by management and dependent on the type and geographical location of the property as well as the time since the last appraisal.

Other Real Estate Owned. The fair value of OREO is generally determined based upon outside appraisals using observable market data for the same or similar real estate (Level 2). Adjustments to the appraised values are largely related to market correlated or corroborated information such as observed changes in local real estate prices and broker costs. These were deemed to be Level 2 inputs since in general, the market-based information was considered to be the primary determinant of the value after market correlated and corroborated information as assessed by management and dependent on the type and geographical location of the property as well as the time since the last appraisal; and the brokerage costs which are largely fixed percentages that do not vary or change other than nominally. The carrying value of a foreclosed asset is immediately adjusted down when new information is obtained. This new information may include a new appraisal, a potentially acceptable offer, the sale of a similar property in the vicinity of one of CIB Marine's assets and/or a change in the price the property is being listed for based on market forces.

The table below summarizes fair value of financial assets and liabilities at December 31, 2012 and 2011.

	Carrying Amount	Fair Value Measurement			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
At December 31, 2012					
Financial assets:					
Cash and cash equivalents	\$ 53,530	\$ 53,530	\$ —	\$ —	\$ 53,530
Loans held for sale	347	—	—	347	347
Securities available for sale	86,480	—	82,586	3,294	86,480
Trading securities	3,273	—	—	3,273	3,273
Loans, net	307,125	—	6,942	293,296	300,238
Federal Home Loan Bank stock	2,956	NA	NA	NA	NA
Accrued interest receivable	1,298	—	491	807	1,298
Interest rate swaps	3	—	3	—	3
Financial liabilities:					
Deposits	394,684	239,783	157,954	—	397,737
Short-term borrowings	10,414	—	10,414	—	10,414
Accrued interest payable	271	—	271	—	271
Interest rate swaps	98	—	98	—	98
(Dollars in thousands)					
At December 31, 2011					
Financial assets:					
Cash and cash equivalents		\$ 44,828	\$ 44,828		
Loans held for sale		2,120	2,120		
Securities available for sale		89,009	89,009		
Loans, net		341,504	325,945		
Federal Home Loan Bank stock		11,555	NA		
Accrued interest receivable		1,648	1,648		
Financial liabilities:					
Deposits		422,586	425,559		
Short-term borrowings		9,784	9,784		
Federal Home Loan Bank advances		5,000	5,130		
Accrued interest payable		376	376		

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	At December 31, 2012			At December 31, 2011		
	Contractual or Notional Amount	Carrying Amount	Estimated Fair Value	Contractual or Notional Amount	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)					
Off-balance sheet items:						
Commitments to extend credit						
Fixed	\$ 1,445	\$ —	\$ —	\$ 1,724	\$ —	\$ —
Variable	32,980	—	—	30,110	—	—
Standby letters of credit	2,094	4	4	2,385	(6)	(6)

Fair value amounts represent estimates of value at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

Because of the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make reasonable comparisons of CIB Marine's fair value to that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated fair value disclosures and to realize that because of these uncertainties the aggregate fair value should in no way be construed as representative of the underlying value of CIB Marine.

The following describes the methodology and assumptions used to estimate fair value of financial instruments.

Cash and Cash Equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents approximates their fair value and are classified as Level 1 for due from accounts held at the Federal Reserve Bank or investment grade correspondent banks and Level 2 for Federal Funds sold and repurchase agreements.

Loans Receivable. The fair value of loans receivable are either Level 2 or Level 3. Fair values of certain impaired loans are evaluated at Level 2 described above under the previous table "Fair Value for Measurements Made on a Nonrecurring Basis." The fair value of all other loans are evaluated at Level 3 and estimated using the income approach to valuation by discounting the expected future cash flows using current interest rates with credit and quality discounts for similar and comparable, but not identical, loans. The credit and quality discounts as well as the prepayment speeds used in deriving the cash flows representing significant unobservable inputs. The carrying value of loans receivable is net of the allowance for loan losses. The methods used to estimate the fair value of loans do not necessarily represent an exit price.

The fair value of loans held for sale is described in the preceding table.

Federal Home Loan Bank. There is no market for FHLBC stock and it may only be sold back to the FHLBC or another member institution at par with the FHLBC and the FHFA approval. As a result, its cost, and its par amount at this time represents its carrying amount. The carrying amount of FHLBC stock was \$3.0 million and \$11.6 million at both December 31, 2012 and 2011, respectively.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value resulting in a Level 2 or 3 classification consistent with the respective asset.

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Deposit Liabilities. The carrying value of deposits with no stated maturity approximates their fair value, as they are payable on demand, resulting in a Level 1 classification. The fair value of fixed time deposits was estimated using the income approach by discounting expected future cash flows. The discount rates used in these analyses are based on market rates of interest for time deposits of similar remaining maturities, resulting in a Level 2 classification.

Short-term Borrowings. The carrying value of short-term borrowings payable within three months or less approximates their fair value, resulting in a Level 2 classification. The estimated fair value of borrowed funds with a maturity greater than three months is based on quoted market prices, when available. Borrowed funds with a maturity greater than three months for which quoted prices were not available were valued using the income approach to valuation by discounting expected future cash flows by a current market rate for similar types of debt, resulting in a Level 2 classification. For purposes of this disclosure, short-term borrowings are those borrowings with stated final maturities of less than or equal to one year, including securities sold under agreements to repurchase, U.S. Treasury tax and loan notes, lines of credit, commercial paper and other similar borrowings.

Federal Home Loan Bank Advances. The fair market value of long-term borrowings payable was estimated using the income approach by discounting the expected future cash flows using current interest rates for instruments with similar terms, resulting in a Level 2 classification.

Accrued Interest Payable. The carrying amount of accrued interest payable is used to approximate its fair value resulting in a Level 2 or 3 classification consistent with the respective liability.

Off-Balance Sheet Instruments. The fair value and carrying value of letters of credit and unused and open ended lines of credit have been estimated based on the unearned fees charged for those commitments, net of accrued liability for probable losses.

Note 18-Stock-Based Compensation

Under the terms of an incentive stock plan adopted during 1999, shares of unissued common stock were reserved for options for certain employees at prices not less than the fair value of the shares at the date of grant. These options expire ten years after the grant date with options scheduled to expire at various times through 2018. In accordance with the plan, no stock grants could be issued after 2009 and no additional shares of common stock remain reserved for future grants under the option plan approved by stockholders. At December 31, 2012, all stock options of CIB Marine are vested and all compensations expense related to stock options has been recognized.

The fair value method resulted in \$0.01 million and \$0.02 million of compensation expense for 2012 and 2011, respectively.

The following table shows activity relating to stock options.

	Number of Shares	Range of Option Prices per Share	Weighted Average Exercise Price
Shares under option at January 1, 2011	461,271	\$2.17-22.89	\$5.09
Lapsed or surrendered	(53,271)	2.17-22.89	13.82
Shares under option at December 31, 2011	408,000	\$3.70-4.10	\$3.95
Lapsed or surrendered	(26,000)	3.70-4.10	3.82
Shares under option, exercisable and vested at December 31, 2012	382,000	\$3.70-4.10	\$3.96

Options outstanding have no intrinsic value at December 31, 2012 and 2011. The following table shows activity relating to nonvested stock options:

	Years Ended December 31,	
	2012	2011
Balance at beginning of year	42,700	122,500
Vested	(39,100)	(71,600)
Forfeited	(3,600)	(8,200)
Balance at end of year	—	42,700

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The following table summarizes information about stock options outstanding at December 31, 2012.

Options Outstanding and Exercisable				
Option Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercisable Weighted Average Exercise Prices	Weighted Average Contractual Years
\$3.70	133,500	4.92	\$3.70	
4.10	248,500	3.78	4.10	
\$ 3.70 — 4.10	382,000	4.17	\$3.96	4.17

Note 19-Other Benefit Plans

CIB Marine provides a defined contribution 401(k) plan to all employees of CIB Marine and its subsidiaries who have attained age 18. Employees may enter the plan on the first day of the month following sixty days of employment. The plan permits participants to make voluntary tax deferred contributions up to the maximum permitted by law. Participants age 50 or older are allowed to make a stated amount of additional contributions on a tax-deferred basis as permitted by law. In 2012 and 2011, the matching contribution was 50% of the employee's contribution up to 6% of compensation. The total expenses incurred for employer matching contributions to the plan was \$0.2 million in each of the years 2012 and 2011. All administrative costs to maintain the plan are paid by the plan.

Note 20-Income Taxes

The provision for (benefit from) income taxes on income (loss) from continuing operations in the consolidated statements of operations consisted of the following components:

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Current tax provision:		
Federal	\$—	\$—
State	50	—
Deferred tax	—	—
	\$50	\$—

A reconciliation of the income tax provision (benefit) and income tax (benefit) from continuing operations that would have been provided by applying the federal statutory rate of 35% is as follows:

	Years Ended December 31,			
	2012		2011	
	Amount	%	Amount	%
	(Dollars in thousands)			
Income tax (benefit) at statutory tax rate	\$496	35.0%	\$(2,172)	(35.0)%
Increase (reduction) in tax rate resulting from:				
State income taxes, net of federal income tax effect and valuation allowance	33	2.3	—	0.0
Tax-exempt interest	(12)	(0.8)	(16)	(0.3)
Affordable housing credits	(220)	(15.5)	(360)	(6.6)
Valuation allowance-federal	(336)	(23.8)	2,444	40.0
Other, net	89	6.3	104	1.9
	\$50	3.5%	\$—	0.0%

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The tax effects of temporary differences that give rise to net deferred tax (liabilities)/assets reported in other assets in the accompanying consolidated balance sheets are as follows:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(Dollars in thousands)	
Deferred tax assets:		
Loss carryforwards (1)	\$33,934	\$33,711
Tax credit carryforwards	918	698
Allowance for loan losses	4,561	6,481
Net unrealized loss in securities available for sale	702	1,491
Other loss reserves	2,370	1,391
Other	979	889
Deferred tax assets before valuation allowance	43,464	44,661
Valuation allowance	(42,901)	(43,782)
Net deferred tax assets	563	879
Deferred tax liabilities:		
Other	\$563	\$879
Total deferred tax liabilities	563	879
Net deferred tax assets	\$—	\$—

(1) Includes U.S. federal and state net operating, capital loss and charitable contribution carryforwards as limited under Internal Revenue Code sections 382 and 383.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, CIB Marine is generally subject to approximately a \$2.3 million annual limitation on the use of its \$46 million of pre-2010 net operating losses (“NOLs”). All of these net operating loss carryforwards will expire in varying amounts for federal tax purposes through 2029.

NOLs arising subsequent to 2009 in post-emergence years are not subject to this limitation absent another ownership change for U.S. tax purposes. CIB Marine incurred federal and state net operating losses of approximately \$24.6 million and \$24.8 million, respectively, for the three years ending after December 31, 2009. These losses expire in varying amounts through 2032 and are available to offset future taxable income without limitation. Similarly, CIB Marine received approximately \$0.8 million in tax credits subsequent to December 31, 2009 which are available without limitation and expire in varying amounts through 2032.

No U.S. federal or state loss carryback potential remains. Due to the significant operating losses in 2006 through 2012, management has determined that it is not more likely than not that the net deferred tax assets at December 31, 2012 and 2011 will be realized in their entirety. Therefore, a valuation allowance has been provided by way of a charge to federal and state tax expense to reduce the net U.S. federal and state net deferred tax asset to zero for both years.

CIB Marine files income tax returns in the U.S. federal and various state jurisdictions. With limited separate company state exceptions, CIB Marine is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2009, and state tax authorities for years before 2008. CIB Marine has no unrecognized tax benefits as of December 31, 2012 and 2011. CIB Marine does not anticipate material adjustments to the amount of total unrecognized tax benefits within the next twelve months.

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Note 21-Parent Company Financial Statements

The condensed financial statements of the parent company only, are presented as follows:

Condensed Balance Sheets

	At December 31,	
	2012	2011
	(Dollars in thousands)	
Assets		
Cash and due from affiliated banks	\$1,909	\$2,924
Investments in subsidiaries	65,597	61,243
Premises and equipment, net	—	90
Income tax receivable	236	161
Other assets	135	175
Total assets	\$67,877	\$64,593
Liabilities		
Other liabilities	\$248	\$371
Total liabilities	248	371
Stockholders' Equity		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed noncumulative perpetual issued-55,624 shares of Series A and 4,376 shares of Series B convertible; aggregate liquidation preference-\$60,000,	51,000	51,000
Common stock, \$1 par value; 50,000,000 authorized shares; 18,346,391 issued shares, 18,135,344 outstanding shares	18,346	18,346
Capital surplus	158,493	158,480
Accumulated deficit	(157,931)	(159,298)
Accumulated other comprehensive loss related to available for sale securities	1,924	2,113
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(3,674)	(5,890)
Accumulated other comprehensive loss, net	(1,750)	(3,777)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	67,629	64,222
Total liabilities and stockholders' equity	\$67,877	\$64,593

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Condensed Statements of Operations

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Dividend Income		
Dividends from non-bank subsidiary	\$—	\$—
Total dividend income	—	—
Noninterest income		
Equity in undistributed (earnings) loss of subsidiaries	2,314	(4,021)
Gain on sale of assets, net	20	10
Other income	1	1
Total noninterest income (loss)	2,335	(4,010)
Noninterest expense		
Equipment	53	99
Professional services	566	917
Insurance	245	228
Write down and losses on assets	9	66
Other	228	343
Total noninterest expense	1,101	1,653
Income (loss) before income taxes	1,234	(5,663)
Income tax benefit	(133)	(239)
Net income (loss)	1,367	(5,424)
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$1,367	\$(5,424)
Other comprehensive income	2,027	871
Comprehensive Income (loss)	\$3,394	\$(4,553)

Condensed Statement of Cash Flows

	Years Ended December 31,	
	2012	2011
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income (loss)	\$1,367	\$(5,424)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in undistributed (earnings) loss of subsidiaries	(2,314)	4,021
Depreciation and amortization	28	81
Write down and losses on assets	9	66
Gain on sale of assets	(20)	(10)
Increase (decrease) in interest receivable and other assets	(15)	561
Increase (decrease) in other interest payable and other liabilities	(123)	17
Net cash used in operating activities	(1,068)	(688)
Cash Flows from Investing Activities:		
Fixed asset disposals	53	24
Net cash provided by investing activities	53	24
Cash Flows from Financing Activities:		
Net cash used in financing activities	—	—
Net decrease in cash and cash equivalents	(1,015)	(664)
Cash and cash equivalents, beginning of year	2,924	3,588
Cash and cash equivalents, end of year	\$1,909	\$2,924

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Note 22-Quarterly Consolidated Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in thousands, except share data)					
For the Year Ended December 31, 2012					
Total interest income	\$5,767	\$5,463	\$5,136	\$5,038	\$21,404
Total interest expense	923	856	753	686	3,218
Net interest income	4,844	4,607	4,383	4,352	18,186
Provision for (reversal of) loan losses	73	(2,728)	172	(730)	(3,213)
Net interest income after provision for (reversal of) loan	4,771	7,335	4,211	5,082	21,399
Gain on sale of securities	—	—	754	19	773
Other noninterest income (loss)	107	(966)	512	306	(41)
Other noninterest expense	4,989	5,378	5,134	5,213	20,714
Income (loss) before income taxes	(111)	991	343	194	1,417
Income tax expense	—	50	—	—	50
Net income (loss)	(111)	941	343	194	1,367
Preferred stock dividends	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$(111)	\$941	\$343	\$194	\$1,367
Earnings (loss) per share:					
Basic	\$(0.01)	\$0.05	\$0.02	\$0.01	\$0.08
Diluted	(0.01)	0.03	0.01	0.01	0.04

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in thousands, except share data)					
For the Year Ended December 31, 2011					
Total interest income	\$6,789	\$6,501	\$6,376	\$6,014	\$25,680
Total interest expense	1,639	1,554	1,257	1,019	5,469
Net interest income	5,150	4,947	5,119	4,995	20,211
Provision for loan losses	1,089	1,679	1,610	2,003	6,381
Net interest income after provision for loan losses	4,063	3,271	3,511	2,999	13,844
Other noninterest income	211	208	606	639	1,664
Other noninterest expense	5,617	5,346	4,728	6,008	21,699
Loss from continuing operations before income taxes	(1,345)	(1,870)	(613)	(2,377)	(6,205)
Income tax expense	—	—	—	—	—
Loss from continuing operations	(1,345)	(1,870)	(613)	(2,377)	(6,205)
Discontinued operations	—	379	—	402	781
Net loss	(1,345)	(1,491)	(613)	(1,975)	(5,424)
Preferred stock dividends	—	—	—	—	—
Net loss attributable to common stockholders	\$(1,345)	\$(1,491)	\$(613)	\$(1,975)	\$(5,424)
Loss per share:					
Basic and diluted					
Continuing operations	\$(0.07)	\$(0.10)	\$(0.03)	\$(0.14)	\$(0.34)
Discontinued operations	—	0.02	—	0.02	0.04
Net loss	\$(0.07)	\$(0.08)	\$(0.03)	\$(0.12)	\$(0.30)