

CIB MARINE BANCSHARES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

CIB MARINE BANCSHARES, INC.

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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, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), 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, 2013 and 2012, 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 14, 2014

CIB MARINE BANCSHARES, INC.
Consolidated Balance Sheets

	At December 31,	
	2013	2012
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$10,886	\$53,530
Investment securities:		
Securities available for sale	89,043	86,480
Trading securities	1,688	3,273
Total investment securities	90,731	89,753
Loans held for sale	1,226	347
Loans	341,332	318,503
Allowance for loan losses	(8,308)	(11,378)
Net loans	333,024	307,125
Federal Home Loan Bank stock	2,170	2,956
Premises and equipment, net	4,834	4,161
Accrued interest receivable	1,288	1,298
Other real estate owned, net	9,700	10,493
Bank owned life insurance	4,089	4,000
Goodwill and other intangible assets, net	287	—
Other assets	1,918	1,466
Total assets	\$460,153	\$475,129
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$71,425	\$54,163
Interest-bearing demand	30,471	31,496
Savings	147,058	154,124
Time	138,947	154,901
Total deposits	387,901	394,684
Short-term borrowings	4,348	10,414
Accrued interest payable	235	271
Other liabilities	1,474	2,131
Total liabilities	393,958	407,500
Stockholders' Equity		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed rate 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	158,493
Accumulated deficit	(159,285)	(157,931)
Accumulated other comprehensive income related to available for sale securities	542	1,924
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(2,372)	(3,674)
Accumulated other comprehensive loss, net	(1,830)	(1,750)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	66,195	67,629
Total liabilities and stockholders' equity	\$460,153	\$475,129

See accompanying Notes to Consolidated Financial Statements

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

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Interest Income		
Loans	\$15,045	\$17,713
Loans held for sale	8	127
Securities	2,584	3,434
Other investments	73	130
Total interest income	17,710	21,404
Interest Expense		
Deposits	2,461	3,069
Short-term borrowings	9	17
Federal Home Loan Bank advances	—	132
Total interest expense	2,470	3,218
Net interest income	15,240	18,186
Reversal of loan losses	(22)	(3,213)
Net interest income after reversal of loan losses	15,262	21,399
Noninterest Income		
Deposit service charges	414	499
Other service fees	162	202
Mortgage banking revenue, net	366	—
Other income	196	130
Total other-than-temporary impairment losses		
Total impairment loss	—	(1,422)
Loss recognized in other comprehensive income	—	—
Net impairment loss recognized in earnings	—	(1,422)
Net gains on sale of securities	2	773
Write downs and net losses on sale of assets	(240)	(1,425)
Total noninterest income (loss)	900	(1,243)
Noninterest Expense		
Compensation and employee benefits	9,584	9,982
Equipment	868	860
Occupancy and premises	1,509	1,528
Data processing	627	598
Federal deposit insurance	578	1,043
Professional services	1,266	1,481
Telephone and data communication	428	427
Insurance	451	686
Other expense	2,205	2,134
Total noninterest expense	17,516	18,739
Income (loss) from operations before income taxes	(1,354)	1,417
Income tax expense	—	50
Net income (loss)	(1,354)	1,367
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$(1,354)	\$1,367

continued

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

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Net income (loss)	\$(1,354)	\$1,367
Other comprehensive income (loss):		
Change in unrealized losses on securities available for sale, net of reclassification	\$(80)	\$26
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
Net realized gains on available for sale securities	—	—
Total other comprehensive income (loss)	(80)	2,027
Comprehensive income (loss)	\$(1,434)	\$3,394
 Earnings (Loss) Per Share		
Basic Net income (loss)	\$(0.07)	\$0.08
Diluted Net income (loss)	\$(0.07)	\$0.04
Weighted average shares-basic	18,127,892	18,127,892
Weighted average shares-diluted	18,127,892	35,631,892

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, 2012	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
Net loss	—	—	—	—	(1,354)	—	—		(1,354)
Other comprehensive loss	—	—	—	—	—	(80)	—		(80)
Balance at December 31, 2013	18,346,391	\$18,346	\$51,000	\$158,493	\$(159,285)	\$(1,830)	\$(529)		\$66,195

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	\$(1,354)	\$1,367
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred loan fee amortization	187	49
Depreciation and other amortization	1,458	771
Reversal of loan losses	(22)	(3,213)
Mortgage banking revenue, net	(366)	—
Origination of loans held for sale	(9,651)	—
Proceeds from loans held for sale	8,971	—
Earnings from bank owned life insurance	(89)	—
Net gains on sale of assets	(595)	(550)
Net gains on sale of securities	(2)	(773)
Write down and losses on assets	835	2,058
Impairment loss on investment securities	—	1,422
Decrease (increase) in interest receivable and other assets	(1,105)	504
Increase (decrease) in accrued interest payable and other liabilities	(813)	18
Net cash provided by (used in) operating activities	(2,546)	1,653
Cash Flows from Investing Activities		
Maturities of securities available for sale	2,250	9,250
Purchase of securities available for sale	(2,287)	(12,465)
Proceeds from sales of securities held for trading	1,586	8,732
Repayments of asset and mortgage-backed securities available for sale	16,142	19,877
Purchase of mortgage-backed securities available for sale	(19,972)	(25,300)
Decrease in Federal Home Loan Bank stock	786	8,599
Purchase of bank owned life insurance	—	(4,000)
Net decrease in other investments	278	221
Net decrease (increase) in loans	(30,010)	32,152
Proceeds from sales of loans held for sale	—	1,877
Proceeds from sales of other real estate owned	5,464	714
Purchase of mortgage banking assets	(809)	—
Premises and equipment expenditures	(677)	(336)
Net cash provided by (used in) investing activities	(27,249)	39,321
Cash Flows from Financing Activities		
Decrease in deposits	(6,783)	(27,902)
Repayments of Federal Home Loan Bank advances	—	(5,000)
Net increase (decrease) in short-term borrowings	(6,066)	630
Net cash used in financing activities	(12,849)	(32,272)
Net increase (decrease) in cash and cash equivalents	(42,644)	8,702
Cash and cash equivalents, beginning of year	53,530	44,828
Cash and cash equivalents, end of year	\$10,886	\$53,530
Supplemental Cash Flow Information		
Cash paid during the year for:		
Interest expense	\$2,506	\$3,323
Income taxes	—	—
Supplemental Disclosures of Noncash Activities		
Transfer of loans to other real estate owned	\$4,642	\$5,391
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, that 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

CIB Marine has evaluated subsequent events for recognition and disclosure through February 14, 2014, 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 Consolidated 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.

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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

Mortgage loans originated and intended for sale in the secondary market are recorded at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights released to the investor. The carrying value of the mortgage loans held for sale includes the value of the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carry value of the related loan sold.

Other 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 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

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Notes to Consolidated Financial Statements

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 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. TDRs 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. 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.

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

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 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 amounts of commercial, commercial real estate, construction and development, residential real estate, home equity and other consumer loans when available information confirms that specific amounts of the loans 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 loans in CIBM Bank's 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, 2013, accrued interest receivable was \$0.8 million and deferred loan cost was \$1.1 million compared to accrued interest receivable of \$0.8 million and deferred loan cost of \$1.2 million at December 31, 2012.

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 are consistent with their respective recent three-month moving average loss rate and the current segment on

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Notes to Consolidated Financial Statements

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.

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

CIBM 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.

Goodwill and Intangible Assets

The excess of the cost of an acquisition over the fair value of the net assets acquired consists primarily of goodwill and other identifiable intangibles (primarily related to customer relationships acquired). The other intangibles have estimated finite lives and are amortized on an accelerated basis to expense over their weighted average life (a weighted average life of 10 years for 2013). CIB Marine reviews long-lived assets and certain identifiable intangibles for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in which case an impairment charge would be recorded. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis. In addition, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Any impairment of goodwill or other intangibles will be recognized as an expense in the period of impairment and such impairment could be

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material. Beginning in 2014, CIB Marine will complete its annual goodwill impairment test as of December 31 of each year. Note 8 includes a summary of CIB Marine's goodwill and other intangibles.

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.

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. CIB Marine management believes the amount is immaterial at December 31, 2013.

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 and conversion rights of the Series B Preferred deemed antidilutive are not included in the earnings (loss) per share calculation.

Transfers of Financial Asset

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from CIB Marine, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and CIB Marine does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

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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.

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 during which the hedged transactions will affect earnings.

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 a floating rate. These interest rate swaps have been designated as fair value hedges.

CIB Marine entered into commitments, known as interest rate lock commitments (“IRLC”), to originate loans whereby the interest rate on the loan is determined prior to funding. IRLCs on mortgage loans that are intended for sale are considered to be derivatives. Therefore, they are recorded at fair value with changes in fair value recorded in mortgage banking revenue. CIB Marine estimates the fair value of an IRLC based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the IRLC. The fair value of the underlying mortgage loan is based on quoted mortgage backed security prices. Closing ratios derived using CIB Marine’s recent historical empirical data are utilized to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. IRLCs expose CIB Marine to interest rate risk. Changes in fair value are recorded in mortgage banking revenue. CIB Marine manages that risk by entering into a type of forward commitment contingent on the closing of the mortgage loan called a Best Efforts contract. Best Efforts contracts are also derivatives and are recorded at fair value with changes in their fair value reported in revenues from mortgage loans. The cash flows from these Best Efforts contracts are classified in operating activities in the Consolidated Statement of Cash Flows. These mortgage banking derivatives are recorded as stand-alone derivatives with no hedging designation.

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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.

Note 2-Cash and Due from Banks

Reserves in the form of deposits with the Federal Reserve Bank and vault cash totaling \$0.9 million and \$4.3 million were maintained to satisfy federal regulatory requirements at December 31, 2013 and 2012, respectively. These amounts are included in cash and due from banks in the consolidated balance sheets.

Note 3-Investment Securities

During 2013 gross gains on trading securities were nominal and during 2012 gross gains on trading securities were \$0.8 million. There were no gross losses in 2013 or 2012.

The amortized cost, gross unrealized gains and losses, and fair values of available for sale securities at December 31, 2013 and 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2013				
U.S. government agencies	\$11,306	\$41	\$46	\$11,301
States and political subdivisions	24,249	998	417	24,830
Trust preferred collateralized debt obligations	7,807	—	2,492	5,315
Other debt obligation	150	—	—	150
Residential mortgage-backed securities (agencies)	43,788	721	612	43,897
Residential mortgage-backed securities (non-agencies (1))	2,573	37	1	2,609
Mutual funds	1,000	—	59	941
Total securities available for sale	<u>\$90,873</u>	<u>\$1,797</u>	<u>\$3,627</u>	<u>\$89,043</u>
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>

(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, 2013 had an amortized cost of \$1.7 million and fair value of \$1.7 million. Trading securities at December 31, 2012 had an amortized cost of \$3.2 million and fair value of \$3.3 million.

Securities available for sale with a carrying value of \$36.1 million and \$42.8 million at December 31, 2013 and 2012, 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, 2013, 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.

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	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	\$2,680	\$2,720
Due after one year through five years	9,212	9,588
Due after five years through ten years	14,065	14,226
Due after ten years	17,555	15,062
	43,512	41,596
Mutual funds	1,000	941
Residential mortgage-backed securities (agencies)	43,788	43,897
Residential mortgage-backed securities (non-agencies)	2,573	2,609
Total securities available for sale	\$90,873	\$89,043

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, 2013 and 2012:

	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, 2013						
U.S. government agencies	\$8,981	\$46	\$—	\$—	\$8,981	\$46
States and political subdivisions	1,620	38	2,093	379	3,713	417
Trust preferred collateralized debt obligations	—	—	5,315	2,492	5,315	2,492
Residential mortgage-backed securities (agencies)	22,211	434	4,386	178	26,597	612
Residential mortgage-backed securities (non-agencies)	—	—	423	1	423	1
Mutual funds	941	59	—	—	941	59
Total securities with unrealized losses	\$33,753	\$577	\$12,217	\$3,050	\$45,970	\$3,627
Securities without unrealized losses					43,073	
Total securities					\$89,043	
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					\$86,480	

Net unrealized losses on investment securities were \$1.8 million at each December 31, 2013 and 2012. At December 31, 2013, trust preferred collateralized debt obligations (“TPCDOs”) accounted for \$2.5 million in net unrealized losses and the remaining securities had net unrealized gains of \$0.7 million at December 31, 2013.

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 values of these securities were sold for a gain on sale of \$0.7 million.

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States and Political Subdivisions (“Municipal Securities”). At December 31, 2013, for those Municipal Securities rated by nationally recognized statistical rating agencies, all were rated investment grade except one limited tax general obligation bond issued by the City of Detroit, Michigan issued in 2005. At December 31, 2013, this bond was rated D with a par value of \$2.5 million, amortized cost of \$2.5 million and fair market value of \$2.1 million, and is to be repaid with ad valorem property taxes. At December 31, 2012, this bond was rated CC with a par value of \$2.5 million, amortized cost of \$2.5 million and fair market value of \$1.9 million. This bond was originally rated AAA. The City of Detroit has filed and been accepted in federal court for protection from creditors under Chapter 9 of the Bankruptcy Code as recommended in the emergency financial manager’s plan to resolve the financial situation of the City of Detroit. The security held by CIB Marine has a financial guarantee issued by Ambac Assurance Corporation, who confirmed on July 8, 2013 that liabilities associated with its Detroit insured exposure are obligations of Ambac’s general account. Based upon a review of the financial condition of Ambac, it was determined CIB Marine had no credit related OTTI in the City of Detroit holding at December 31, 2013. 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 \$2.6 million in fair value at December 31, 2013 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.

Trust Preferred Collateralized Debt Obligations. At December 31, 2013, CIB Marine held four TPCDOs of \$8.2 million par value with an amortized cost of \$7.8 million and fair value of \$5.3 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 for these securities during 2013 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 \$2.5 million of unrealized losses recorded in the other comprehensive income at December 31, 2013 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, 2013, 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. During the fourth quarter of 2013 our PreTSL 23 securities began receiving principal and interest payments again. With the exception of the contractual PIK process, the TPCDOs were performing as to full and timely payments at December 31, 2013, 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 three-month U.S. dollar 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 vector of 0.25% per annum over the remaining life, 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%.

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Additional information related to the TPCDOs and related OTTI as of December 31, 2013 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	\$735	\$3,845	\$1,598	\$1,629
Fair value	\$409	\$1,799	\$1,498	\$1,609
Unrealized loss	\$(326)	\$(2,046)	\$(100)	\$(20)
Total Credit-Related OTTI Recognized in Earnings (1)	\$(66)	\$(103)	\$—	\$—
Moody's /S&P /Fitch Ratings	Caa2/NR/C	Ca/NR/CC	A2/BB/A	A3/B/BBB
Percent of Current Deferrals and Defaults to Total Collateral Balances	24%	30%	26%	25%
Break in Yield (2)	20	25	44	42
Coverage (3)	(10)	(13)	37	37
Number of issues in performing collateral	93	47	33	36
Percent of expected deferrals & defaults to performing collateral (4)	5%	5%	5%	5%
Percent of excess subordination to performing collateral (5)	(4%)	(2%)	39%	39%

- (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 2012.
- (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 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, 2013, available for sale Non-agency MBSs rated investment grade included \$1.6 million par value, \$1.6 million amortized cost and \$0.03 million unrealized gains; those rated below investment grade were \$1.0 million par value, \$1.0 million amortized cost and nominal unrealized gain. At December 31, 2013, held for trading Non-agency MBSs rated investment grade included securities with a total of \$0.06 million in par value and \$0.06 million in fair value; those below investment grade included securities with a total of \$1.8 million in par value and \$1.6 million in fair value. The decline of \$1.7 million in par value of securities rated below investment grade was primarily due to repayment of principal during 2013. At December 31, 2013, 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, 2013, for the combined held for trading and available for sale Non-Agency MBSs, the issues from 2004 or earlier represented \$2.6 million in par and amortized cost with a fair value of \$2.6 million, and the issue dates from 2005 through 2006 represented \$1.8 million par value, \$1.7 million in amortized cost with a fair value of \$1.7 million. At December 31, 2013, 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) 2.7% and 1.8%, respectively, for loans 60 or more days past due but not in foreclosure or transferred to OREO; (2) 3.1% and 4.1%, respectively, for loans in foreclosure plus OREO; and (3) 5.9% and 6.0%, 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

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range across the securities was 0.0% to 11.6%. California represents a state level geographic concentration of 38% 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, 2013 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 noninterest 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, 2013, approximately 91% of the carrying value of 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, 2013.

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, 2013 and 2012:

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
	(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	\$169	\$1,478
Additions for the amount related to credit loss for which an OTTI was not previously recognized	—	—
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 it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis	—	161
End of year balance of credit losses related to OTTI for which a portion was recognized in AOCI (1)	<u>\$169</u>	<u>\$169</u>

- (1) The table includes a reduction of the OTTI activity related to the non-investment grade Non-agency MBSs 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.

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Note 4-Loans and Allowance for Loan Losses

Loans

The components of loans were as follows:

	At December 31, 2013		At December 31, 2012	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial	\$56,464	16.6%	\$41,773	13.2%
Commercial real estate	178,387	52.4	189,134	59.6
Construction and development	16,738	4.9	12,852	4.0
Residential real estate	38,397	11.3	23,911	7.5
Home equity	32,245	9.5	28,513	9.0
Purchased home equity pools	15,087	4.4	18,257	5.8
Other consumer	2,880	0.9	2,840	0.9
Gross loans	340,198	100.0%	317,280	100.0%
Deferred loan costs	1,134		1,223	
Loans	341,332		318,503	
Allowance for loan losses	(8,308)		(11,378)	
Loans, net	\$333,024		\$307,125	

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, 2013, significant concentrations exist in commercial real estate loans.

The following table presents the aging of the recorded investment in past due loans at December 31, 2013 and 2012:

	December 31, 2013					
	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	\$—	\$25	\$—	\$25	\$56,423	\$56,448
Commercial real estate:						
Owner occupied	157	—	—	157	36,788	36,945
Non-owner occupied	176	69	—	245	140,460	140,705
Construction and development	—	—	—	—	15,011	15,011
Residential real estate:						
Owner occupied	—	107	—	107	26,835	26,942
Non-owner occupied	—	—	—	—	10,791	10,791
Home equity	568	21	—	589	31,185	31,774
Purchased home equity pools	56	238	—	294	14,793	15,087
Other consumer	—	—	—	—	2,869	2,869
Deferred loan costs	3	2	—	5	1,129	1,134
Total	\$960	\$462	\$—	\$1,422	\$336,284	\$337,706
Nonaccrual Loans (1)						
Commercial	\$—	\$—	\$—	\$—	\$16	\$16
Commercial real estate:						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	737	737
Construction and development	—	—	1,727	1,727	—	1,727
Residential real estate:						
Owner occupied	260	31	303	594	70	664
Non-owner occupied	—	—	—	—	—	—
Home equity	133	29	45	207	264	471
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	11	11	—	11
Deferred loan costs	—	—	—	—	—	—
Total	\$393	\$60	\$2,086	\$2,539	\$1,087	\$3,626

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

	December 31, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Total loans						
Commercial	\$—	\$25	\$—	\$25	\$56,439	\$56,464
Commercial real estate:						
Owner occupied	157	—	—	157	36,788	36,945
Non-owner occupied	176	69	—	245	141,197	141,442
Construction and development	—	—	1,727	1,727	15,011	16,738
Residential real estate:						
Owner occupied	260	138	303	701	26,905	27,606
Non-owner occupied	—	—	—	—	10,791	10,791
Home equity	701	50	45	796	31,449	32,245
Purchased home equity pools	56	238	—	294	14,793	15,087
Other consumer	—	—	11	11	2,869	2,880
Deferred loan costs	3	2	—	5	1,129	1,134
Total	\$1,353	\$522	\$2,086	\$3,961	\$337,371	\$341,332
	December 31, 2012					
	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	\$—	\$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

(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.

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Notes to Consolidated Financial Statements

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

	At December 31,	
	2013	2012
	(Dollars in thousands)	
Nonaccrual-loans	\$3,626	\$8,926
Nonaccrual-loans held for sale	—	—
Restructured loans accruing	7,303	8,746
90 days or more past due and still accruing-loans	—	23

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,			
	2013	2012	2013	2012
	Nonaccrual		Loans Past Due Over 90 Days on Accrual	
	(Dollars in thousands)			
Commercial	\$16	\$655	\$—	\$—
Commercial real estate:			—	—
Owner occupied	—	881	—	—
Non-owner occupied	737	3,641	—	—
Construction and development	1,727	2,395	—	23
Residential real estate:			—	—
Owner occupied	664	695	—	—
Home equity	471	656	—	—
Other consumer	11	3	—	—
Total	\$3,626	\$8,926	\$—	\$23

	At December 31,	
	2013	2012
	(Dollars in thousands)	
Impaired loans without a specific allowance	\$6,016	\$10,890
Impaired loans with a specific allowance	4,819	12,119
Total impaired loans	\$10,835	\$23,009

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, 2013 and 2012:

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With no related allowance:					
Commercial	\$16	\$16	\$—	\$96	\$—
Commercial real estate:					
Owner occupied	2,006	2,006	—	763	4
Non-owner occupied	2,352	1,792	—	6,442	31
Construction and development	4,424	1,727	—	2,002	—
Residential real estate:					
Owner occupied	248	211	—	211	—
Home equity	264	264	—	300	1
Other consumer	—	—	—	36	—
	\$9,310	\$6,016	\$—	\$9,850	\$36
With an allowance recorded:					
Commercial	\$—	\$—	\$—	\$103	\$—
Commercial real estate:					
Owner occupied	—	—	—	1,593	15
Non-owner occupied	2,523	2,523	352	2,167	23

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	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
Residential real estate:					
Owner occupied	643	639	36	668	2
Home equity	1,243	1,243	103	1,341	9
Purchased home equity pools	410	410	51	417	—
Other consumer	4	4	3	6	—
	4,823	4,819	545	6,295	49
Total	\$14,133	\$10,835	\$545	\$16,145	\$85

The total amount of cash basis income recognized on impaired loans was immaterial for 2013.

	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	—
	\$19,773	\$10,890	\$—	\$11,755	\$53
<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	—
	12,123	12,119	2,443	16,667	150
Total	\$31,896	\$23,009	\$2,443	\$28,422	\$203

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

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Balance at beginning of year	\$11,378	\$16,128
Charge-offs	(4,311)	(9,587)
Recoveries	1,263	8,050
Net loan charge-offs	(3,048)	(1,537)
Provision for (reversal of) loan losses	(22)	(3,213)
Balance at end of year	<u>\$8,308</u>	<u>\$11,378</u>
Allowance for loan losses as a percentage of loans	<u>2.43%</u>	<u>3.57%</u>

A summary of the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2013 and 2012 is as follows.

	At or For the Year Ended December 31, 2013							Total
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	
	(Dollars in thousands)							
Balance at beginning of year	\$1,023	\$6,572	\$394	\$303	\$1,043	\$2,007	\$36	\$11,378
Provision (credit) for loan losses	(145)	145	16	139	18	(219)	24	(22)
Charge-offs	(100)	(2,955)	—	(2)	(404)	(844)	(6)	(4,311)
Recoveries	347	433	63	—	177	242	1	1,263
Balance at end of year	<u>\$1,125</u>	<u>\$4,195</u>	<u>\$473</u>	<u>\$440</u>	<u>\$834</u>	<u>\$1,186</u>	<u>\$55</u>	<u>\$8,308</u>

Allowance for loan losses:

Ending balance individually evaluated for impairment	\$—	\$352	\$—	\$36	\$103	\$51	\$3	\$545
Ending balance collectively evaluated for impairment	1,125	3,843	473	404	731	1,135	52	7,763

Loans:

Ending balance individually evaluated for impairment	\$16	\$6,321	\$1,727	\$850	\$1,507	\$410	\$4	\$10,835
Ending balance collectively evaluated for impairment	56,448	172,066	15,011	37,547	30,738	14,677	2,876	329,363

	At or For the Year Ended December 31, 2012							Total
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	
	(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

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Troubled Debt Restructurings

CIB Marine has allocated \$0.5 million and \$0.6 million of specific reserves to customers whose loan terms have been modified as TDR at December 31, 2013 and 2012, respectively. CIB Marine has no additional lending commitments at December 31, 2013 and 2012 to customers with outstanding loans that are classified as TDR.

At December 31, 2013, there were \$9.7 million of TDR loans, of which \$2.4 million were classified as nonaccrual and \$7.3 million were classified as restructured loans and accruing. The change in TDR loans from December 31, 2012 to December 31, 2013 was primarily due to \$1.7 million of payments and paid-off TDR loans, \$0.7 million transferred to other real estate owned and \$0.6 million removed from TDR loans offset by \$0.8 million of additional loans added to TDR. At December 31, 2012, there were \$11.9 million TDR loans, of which \$3.1 million were classified as nonaccrual and \$8.8 million were classified as restructured loans and accruing.

The following tables show the modifications for TDRs made during 2013 and 2012, and TDRs for which there were payment defaults during the periods on modifications made during the prior twelve months:

	Years Ended December 31,					
	2013		2012			
	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
	Number of Contracts					
(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	1	496	496	—	—	—
Construction and development	—	—	—	1	1,133	1,133
Residential real estate:						
Owner occupied	1	109	109	2	176	176
Home equity	2	170	170	5	393	393
Other consumer	—	—	—	1	3	3
	4	\$775	\$775	11	\$4,572	\$4,572

	Years Ended December 31,			
	2013		2012	
	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	—	—	—	—
Construction and development	—	—	—	—
Residential real estate:				
Owner occupied	—	—	2	176
Home equity	1	55	1	80
Other consumer	—	—	1	3
	1	\$55	4	\$259

For the years ending 2013 and 2012, net charge-offs related to troubled debt restructurings totalled \$2.0 million and \$0.6 million, respectively. The TDRs described above increased the allowance for loan losses nominally during the years ended December 31, 2013 and 2012 and resulted in zero charge offs for both 2013 and 2012.

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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 2013. 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.

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 660 (the minimum FICO was increased from 640 to 660 during 2013) and, where collateralized, a LTV of 100% or less depending on the type of collateral. CIBM 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 with certain other higher risk qualities at origination are considered substandard-accrual and 87 days past due loans 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.

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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, 2013 and 2012, 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, 2013						
Commercial	\$52,753	\$2,937	\$758	\$16	\$—	\$56,464
Commercial real estate:						
Owner occupied	33,021	1,902	2,022	—	—	36,945
Non-owner occupied	132,329	5,677	2,699	737	—	141,442
Construction and development	15,011	—	—	1,727	—	16,738
Residential real estate:						
Owner occupied	26,056	145	741	361	303	27,606
Non-owner occupied	10,725	27	39	—	—	10,791
Home equity	30,417	556	801	426	45	32,245
Purchased home equity pools	12,178	—	2,909	—	—	15,087
Other consumer	2,844	21	4	—	11	2,880
	<u>\$315,334</u>	<u>\$11,265</u>	<u>\$9,973</u>	<u>\$3,267</u>	<u>\$359</u>	<u>340,198</u>
Deferred loan costs						1,134
Total						<u><u>\$341,332</u></u>
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><u>\$318,503</u></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, 2013. The activity in these loans during 2013 and 2012 is as follows:

	For the Years Ended	
	December 31,	
	2013	2012
	(Dollars in thousands)	
Balance at beginning of year	\$285	\$744
Advances	6,143	—
Repayments	(4,852)	(459)
Balance at end of year	<u>\$1,576</u>	<u>\$285</u>

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Note 5-Premises and Equipment, net

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

	At December 31,	
	2013	2012
	(Dollars in thousands)	
Land	\$1,199	\$1,145
Buildings	4,161	3,814
Leasehold improvements	714	870
Furniture and equipment	6,527	6,545
	<u>12,601</u>	<u>12,374</u>
Less: accumulated depreciation	(7,767)	(8,213)
	<u>\$4,834</u>	<u>\$4,161</u>

Depreciation expense for 2013 and 2012 was \$0.4 million and \$0.5 million, respectively. Total rental expense, which includes the acceleration of lease expense on a closed branch, was \$0.7 million for 2013 and 2012.

CIB Marine leases certain premises and equipment under noncancellable operating leases, which expire at various dates through 2028. 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, 2013.

	At December 31, 2013
	(Dollars in thousands)
2014	\$580
2015	501
2016	463
2017	461
2018	419
Thereafter	1,763
	<u>\$4,187</u>

Note 6-Other Real Estate Owned

A summary of OREO is as follows:

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Balance at beginning of year	\$10,493	\$7,088
Transfer of loans to OREO	4,642	5,391
Sale proceeds	(5,153)	(714)
Gains from sale of OREO	277	419
Write down and losses on sales of OREO	(559)	(1,691)
Balance at end of year	<u>\$9,700</u>	<u>\$10,493</u>

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

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Balance at beginning of year	\$2,049	\$426
Reduction from sales of real estate owned	(1,119)	(20)
Provision for write downs charged to operations	550	1,643
Balance at end of year	<u>\$1,480</u>	<u>\$2,049</u>

Net expenses from operations of OREO, gains/losses on disposals and write downs of properties were \$0.3 million and \$1.5 million for the years ended December 31, 2013 and 2012, respectively.

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Note 7-Other Assets

At December 31, 2013 and 2012, other investments, reported in other assets totaled \$0.4 million and \$0.5 million, respectively. There were no other investment sales during 2013 and 2012. Impairment losses on other investments of \$0.1 million were recognized for each of the years ended December 31, 2013 and 2012.

Note 8 – Goodwill and Intangible Assets

Goodwill. The change in goodwill during the year is as follows:

	For the Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Beginning of the year	\$—	\$—
Acquired goodwill	65	—
Impairment	—	—
End of year	\$65	\$—

On September 13, 2013, CIB Marine acquired certain assets and liabilities of Avenue Mortgage Corporation (“Avenue”) for cash of \$0.8 million. Avenue’s results of operations were included in CIB Maine’s results since September 13, 2013. In addition to the goodwill and intangible assets, CIB Marine recorded premise and equipment of \$0.5 million. The transaction resulted in goodwill of \$0.07 million and intangible assets of \$0.2 million. Impairment to goodwill exists when the carrying value of goodwill exceeds its fair value. CIB Marine elected to perform a qualitative assessment to determine if more likely than not the fair value of the goodwill exceeded its carrying value. If not, then CIB Marine would determine if impairment existed using a two step process. Step 1 includes the determination of the carrying value of the reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, we are required to perform a second step to the impairment test. Step 2 requires that the implied fair value of the reporting unit goodwill be compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

CIB Marine determined that, based on its qualitative assessment, goodwill was not impaired at December 31, 2013.

The goodwill is deductible for tax purposes. CIB Marine acquired Avenue to enhance its residential mortgage origination capabilities to better serve customers within our banking market. Adding these improved capabilities improves net revenue from retail mortgage banking activities which includes selling most of the originated residential real estate loans to investors for a premium net of costs to originate. It also improves net interest income by retaining some of the originated residential real estate loans in CIB Marine’s loan portfolio and for the short holding period of those held for sale.

Acquired Intangible Assets. Acquired intangible assets were as follows at year end:

	At December 31,			
	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in thousands)			
Amortized intangible assets:				
Mortgage banking intangibles	\$223	\$—	\$—	\$—

Aggregate amortization expense was nominal in 2013. Estimated amortization expense for each of the next five years is \$0.02 million per year.

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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, 2013 and 2012, CIB Marine owned \$2.2 million and \$3.0 million, respectively, carrying value in FHLBC stock and the stock is carried at par, of which \$1.1 million and \$1.1 million, respectively, were required stock holdings with the FHLBC based on the asset size of CIBM Bank. During 2013 and 2012, the FHLBC repurchased \$0.8 million and \$8.6 million of stock at par value, respectively. 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 2013 and 2012 and the improved long-term performance outlook of the FHLBC, no impairment has been recorded on the FHLBC stock during 2013 and 2012.

Note 10-Deposits

The aggregate amount of time deposits of \$100,000 or more at December 31, 2013 and 2012 was \$43.0 million and \$46.2 million, respectively. Included in time deposits are public deposits totaling \$2.0 million and \$3.1 million at December 31, 2013 and 2012, respectively, which were collateralized with pledged securities. The scheduled maturities of time deposits are as follows:

	At December 31, 2013
	(Dollars in thousands)
2014	\$85,358
2015	16,321
2016	9,006
2017	5,463
2018	10,763
Thereafter	12,036
	\$138,947

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:

	At or For the Years Ended December 31,					
Balance	Weighted- Average Rate	% of Total Borrowings	Daily Average Balances	Weighted- Average Rate	Highest Balances at Month End	
(Dollars in thousands)						
2013						
Securities sold under repurchase agreements	\$4,348	0.12%	100.0%	\$5,674	0.16%	\$7,530
2012						
Securities sold under repurchase agreements	\$10,414	0.20%	100.0%	\$8,604	0.20%	\$10,483

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

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. CIBM Bank had assets pledged at the FHLBC sufficient to support total borrowings of \$52.4 million at December 31, 2013.

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Note 12-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, 2013 and 2012, 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 December 31, 2012, 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 required CIB Marine, among other things, to obtain Federal Reserve Bank approval before incurring additional borrowings or debt and also required 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 was prohibited from paying any dividends or redeeming or repurchasing any stock without Federal Reserve Bank consent pursuant to the Written Agreement. The Written Agreement was terminated August 27, 2013. At December 31, 2013 CIB Marine remains subject to heightened regulatory restrictions and is required to obtain Federal Reserve Bank approval prior to the payment of dividends, redemption of stock or increase of debt.

At December 31, 2012, 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 Department of

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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%. The Consent Order also 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.

Effective February 14, 2013, CIBM Bank entered into revised regulatory requirements with the FDIC and IDFPR while the Consent Order was being terminated in conjunction with the adoption of the revised regulatory requirements. Effective March 20, 2013, 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. The revised regulatory requirements imposed upon CIBM Bank were terminated subsequent to December 31, 2013.

At both December 31, 2013 and 2012, CIB Marine’s capital ratios were above the minimum levels. At December 31, 2013 and 2012, CIBM Bank was in compliance with its regulatory limits and minimum capital requirements and was in substantial compliance with the revised regulatory requirements.

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.

At both December 31, 2013 and 2012, CIBM Bank’s Tier 1 leverage and risk-based capital ratios were in excess of the minimum ratios for capital adequacy purposes and hence, at December 31, 2013, CIBM Bank was considered to be classified as well-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.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Provisions		Minimum Required Pursuant to regulatory requirements (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)								
December 31, 2013								
Total capital to risk weighted assets								
CIB Marine Bancshares, Inc.	\$72,819	18.05%	\$32,266	8.00%				
CIBM Bank	63,270	15.91	31,816	8.00	\$39,769	10.00%	\$47,723	12.00%
Tier 1 capital to risk weighted assets								
CIB Marine Bancshares, Inc.	67,737	16.79	16,133	4.00				
CIBM Bank	58,258	14.65	15,908	4.00	23,862	N/A	N/A	N/A
Tier 1 leverage to average assets								
CIB Marine Bancshares, Inc.	67,737	14.89	18,193	4.00				
CIBM Bank	58,258	12.97	17,970	4.00	22,463	5.00	35,940	8.00

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	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Provisions		Minimum Required Pursuant to regulatory requirements (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

(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 2013 or 2012.

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 2013 or in 2012. 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 revised regulatory requirements CIBM Bank is prohibited from declaring or paying dividends to CIB Marine without prior regulatory approval. No dividends were paid to CIB Marine from its non-bank subsidiaries in 2013 or 2012.

CIB Marine is also prohibited under its Articles of Incorporation 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.

Note 13-Earnings (Loss) Per Share

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

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Net income (loss)	\$(1,354)	\$1,367
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$(1,354)	\$1,367
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	18,127,892	35,631,892
Earnings (loss) per share :		
Basic Net income (loss)	\$(0.07)	\$0.08
Diluted Net income (loss)	\$(0.07)	\$0.04

Options to purchase 376,466 and 393,464 shares of common stock for the years ended December 31, 2013 and 2012, respectively, were excluded from the calculation of diluted earnings (loss) per share because the exercise price

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of the outstanding stock options was greater than the average market price of the common shares (anti-dilutive options).

At December 31, 2013 and 2012, 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, 2013.

Note 14-Derivatives

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

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Change in fair value of interest rate swaps hedging designated loans included in other noninterest income	\$634	\$(94)
Change in fair value on loans, the hedged items included in other noninterest income	(634)	94

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

	At December 31,			
	2013		2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate swaps related to loans	\$33,439	\$637	\$900	\$3
Included in other liabilities:				
Interest rate swaps related to loans	\$4,885	\$3	\$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 U.S. 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 U.S. dollar one month LIBOR. The interest income (expense) from the interest rate swaps is presented with the loan interest income.

Commitments to fund certain mortgage loans or IRLCs to be sold in the secondary market and a form of forward commitments contingent on the loan closing called Best Efforts contracts for the future delivery of mortgage loans to third party investors are considered to be derivatives. It is CIB Marine's practice to enter into Best Efforts contracts for future delivery of residential mortgage loans when IRLCs are entered into in order to economically hedge the effect of the changes in interest rates resulting from its commitments to fund loans. These mortgage banking derivatives are not designated in hedge relationships.

Effect on the income statement for outstanding forward sale contracts related to:

		Years Ended December 31,	
		2013	2012
	Location	(Dollars in thousands)	
Mortgage loans held for sale	Mortgage banking income	\$24	\$—
Interest rate lock commitments	Mortgage banking income	38	—

The following table reflects the notional amount and fair value of mortgage banking derivatives included in the Consolidated Balance Sheets as of December 31:

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	At December 31,			
	2013		2012	
	Notional Value	Fair Value	Notional Value	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate lock commitments	\$3,073	\$29	\$—	\$—
Best Effort contracts related to mortgage banking	5,677	63	—	—
Total included in other assets	8,750	92	\$—	\$—
Included in other liabilities:				
Interest rate lock commitments	\$2,102	\$(13)	\$—	\$—
Best Effort contracts related to mortgage banking	606	(1)	—	—
Total included in other liabilities	2,708	\$(14)	\$—	\$—

Note 15-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,	
	2013	2012
	(Dollars in thousands)	
Commitments to extend credit ⁽¹⁾ :		
Fixed	\$2,746	\$1,445
Variable	\$46,670	\$32,980
Standby letters of credit	\$2,099	\$2,094
Interest rate swaps	\$38,324	\$11,680

⁽¹⁾ Interest rate lock commitments to originate residential mortgage loans held for sale are considered derivative instruments and are disclosed in Note 14.

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 \$2.1 million with a weighted average term of approximately 11 months and 12 months at December 31, 2013 and 2012, 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.

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, in 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.

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Collateral held varies, but may include marketable securities, accounts receivable, inventories, property and equipment, and real estate. The interest rates range between 1.92% and 18.00% with a weighted average of 3.52%. The maturity dates range between January 2014 and open dated, the latter related to overdraft protection accounts. For commercial commitments to extend credit, totaling \$37.3 million, the maturity dates range between January 2014 and March 2024 with a weighted average of nine months.

In the normal course of business, loans sold to certain investors may need to be repurchased by CIB Marine should they become delinquent within a predefined period. These periods vary from investor to investor, pursuant to their agreements, and are generally short term (i.e., not more than six months). Although some of the loans are insured primarily through FHA, VA or, in the case of conventional loans that exceed 80% loan-to-value, private mortgage insurance; there exists some potential loss to CIB Marine on each such loan sold under these repurchase clauses. To minimize this potential loss, CIB Marine has representation and warrant relief agreements with each investor.

Due to the limited mortgage banking activity during 2013 and none during 2012, CIB Marine estimates the loss reserves to be nominal. The estimates will be continually reviewed and any adjustments will be reflected in operations in future periods.

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 2013 or 2012.

Note 16-Fair Value

The following tables present information about CIB Marine's assets measured at fair value on a recurring basis at December 31, 2013 and 2012, 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.

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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, 2013				
Assets				
U.S. government agencies (SBA loan-backed)	\$11,301	\$—	\$11,301	\$—
States and political subdivisions	24,830	—	24,830	—
Trust preferred securities collateralized debt obligations	5,315	—	—	5,315
Other debt obligations	150	—	150	—
Residential mortgage-backed securities (agencies)	43,897	—	43,897	—
Residential mortgage-backed securities (non-agencies)	2,609	—	2,609	—
Mutual funds	941	—	941	—
Total securities available for sale	89,043	—	83,728	5,315
Trading securities	1,688	—	—	1,688
Interest rate swaps	641	—	641	—
Mortgage interest rate lock commitments	29	—	29	—
Mortgage written options	63	—	63	—
Loans held for sale, residential	1,107	—	1,107	—
Total assets	\$92,571	\$—	\$85,568	\$7,003
Liabilities				
Mortgage interest rate lock commitments	\$13	\$—	\$13	\$—
Mortgage written options	1	—	1	—
Total liabilities	\$14	\$—	\$14	\$—
December 31, 2012				
Assets				
U.S. government agencies	\$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	\$—

(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 are 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, 2013:

Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
(Dollars in Thousands)			
TPCDOs	\$5,315	Discounted cash flow	Constant prepayment rate 1.0%-1.0% (1.0%) Loss severity 85%-85% (85%)
Trading securities	\$1,688	Market approach	Security prices \$88-\$96 (\$93)
Commercial real estate loan held for sale	120	Market approach	Loan prices \$40

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The following table present information about CIB Marine's assets and liabilities measured at fair value on a non-recurring basis at December 31, 2013 and December 31, 2012.

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, 2013					
Assets					
Loans held for sale:					
Commercial real estate	\$120	\$—	\$—	\$120	\$—
Construction and development	—	—	—	—	(169)
Impaired loans (1)					
Commercial	—	—	—	—	128
Commercial real estate	989	—	989	—	550
Construction and development	922	—	922	—	3
Residential real estate	211	—	211	—	—
Home equity	368	—	368	—	4
Purchased home equity pools	—	—	—	—	—
Other consumer	—	—	—	—	3
Total impaired loans	2,490	—	2,490	—	688
Other real estate owned:					
Commercial real estate	3,863	—	3,863	—	27
Construction and development	4,553	—	4,553	—	11
Residential real estate	1,285	—	1,285	—	(9)
Total	\$12,311	\$—	\$12,191	\$120	\$548

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)

(1) Impaired loans gains (losses) include only those attributable to the loans represented in the fair value measurements for December 31, 2013 and December 31, 2012. Total impaired loans at December 31, 2013 and December 31, 2012 were \$10.8 million and \$23.0 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.

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	For Years Ended December 31,	
	2013	2012
Loans held for Sale, commercial real estate		
Balance at beginning of year	\$347	\$2,120
Write down	(184)	(2)
Gain on sale	14	106
Settlements	(57)	(1,877)
Balance at end of year	\$120	\$347
Trading Securities		
Balance at beginning of year	\$3,273	\$—
Total gains included in earnings	2	773
Total loss included in comprehensive income	(1)	—
Transfer from Level 2 available for sale securities	—	11,242
Settlements	(1,586)	(2,629)
Sales	—	(6,113)
Balance at end of year	\$1,688	\$3,273
Available for Sale Securities		
Balance at beginning of year	\$3,894	\$3,234
Total gains included in other comprehensive income	1,658	828
Settlements	(237)	(168)
Balance at end of year	\$5,315	\$3,894

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, 2013 and 2012 (above) are reported in other revenues as follows:

	For the Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Other Revenues		
Total gains or losses in earnings (or changes in net assets) for the period	\$2	\$773
Change in unrealized gains or losses relating to assets still held at reporting date	\$1,658	\$828

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2013 and 2012 for loans held for sale were:

	For the Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Interest income	\$12	\$—
Change in fair value	(2)	—
Total change in fair value	\$10	\$—

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,

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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, 2013, 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.

The fair value of the mortgage derivatives, IRLCs and Best Efforts contracts, are closely related to and hence based on mortgage backed securities prices. These financial instruments trade in a liquid market. As a result, significant fair value Level 2 inputs can generally be verified and do not typically involve significant management judgments and hence they are recorded under the Level 2 inputs category.

The aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

	At December 31,	
	2013	2012
	(Dollars in thousands)	
Aggregate fair value	\$1,107	\$—
Contractual balance	1,108	—
Gain (loss)	\$(1)	\$—

Loans Held for Sale. The fair value of loans held for sale consisting primarily of residential mortgage loans originated for the purpose of selling to investors is based upon binding quotes from third party investors and closely related mortgage backed securities prices. As a result, they are classified under Level 2 inputs category. Although the fair value changes over time, due to the related Best Efforts contracts, they generally settle at the agreed upon price, resulting in no change in fair value at that time.

The fair value of loans held for sale, also consisting 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 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

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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, 2013 and 2012.

	Carrying Amount	Fair Value Measurement			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
At December 31, 2013					
Financial assets:					
Cash and cash equivalents	\$10,886	\$10,886	\$—	\$—	\$10,886
Loan held for sale	1,226	—	1,107	120	1,227
Securities available for sale	89,043	—	83,728	5,315	89,043
Trading securities	1,688	—	—	1,688	1,688
Loans, net	333,024	—	2,490	325,207	327,697
Federal Home Loan Bank stock	2,170	NA	NA	NA	NA
Accrued interest receivable	1,288	—	466	822	1,288
Interest rate swaps	641	—	641	—	641
Mortgage interest rate lock commitments	29	—	29	—	29
Mortgage written options	63	—	63	—	63
Financial liabilities:					
Deposits	387,901	248,954	139,969	—	388,923
Short-term borrowings	4,348	—	4,348	—	4,348
Accrued interest payable	235	1	234	—	235
Mortgage interest rate lock commitments	13	—	13	—	13
Mortgage written options	1	—	1	—	1

	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

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	At December 31, 2013			At December 31, 2012		
	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	\$2,746	\$—	\$—	\$1,445	\$—	\$—
Variable	46,670	—	—	32,980	—	—
Mortgage loans to be held for sale	—	92	92	—	—	—
Standby letters of credit	2,099	(13)	(13)	2,094	4	4

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 \$2.2 million and \$3.0 million at both December 31, 2013 and 2012, respectively.

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

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,

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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 classifications 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 17-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, 2013, all stock options of CIB Marine are vested and all compensation expense related to stock options has been recognized.

The fair value method resulted in \$0.01 million of compensation expense for 2012. There was no compensation expense for 2013.

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, 2012	408,000	\$3.70-4.10	\$3.95
Lapsed or surrendered	(26,000)	3.70-4.10	3.82
Shares under option at December 31, 2012	382,000	\$3.70-4.10	\$3.96
Lapsed or surrendered	(10,000)	4.10	4.10
Shares under option, exercisable and vested at December 31, 2013	372,000	\$3.70-4.10	\$3.96

Options outstanding have no intrinsic value at December 31, 2013 and 2012. The following table shows activity relating to unvested stock options:

	Years Ended December 31,	
	2013	2012
Balance at beginning of year	—	42,700
Vested	—	(39,100)
Forfeited	—	(3,600)
Balance at end of year	—	—

The following table summarizes information about stock options outstanding at December 31, 2013.

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	3.86	\$3.70	
4.10	238,500	2.73	4.10	
\$ 3.70 — 4.10	372,000	3.13	\$3.96	3.13

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Note 18-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 2013 and 2012, 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 during each of the years ended December 31, 2013 and 2012. All administrative costs to maintain the plan are paid by the plan.

Note 19-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,	
	2013	2012
	(Dollars in thousands)	
Current tax provision:		
Federal	\$—	\$—
State	—	50
Deferred tax	—	—
	<u>\$—</u>	<u>\$50</u>

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,			
	2013		2012	
	Amount	%	Amount	%
	(Dollars in thousands)			
Income tax (benefit) at statutory tax rate	(\$474)	35.0%	\$496	35.0%
Increase (reduction) in tax rate resulting from:				
State income taxes, net of federal income tax effect and valuation allowance	—		33	2.3
Tax-exempt interest	(5)	0.4	(12)	(0.8)
Affordable housing credits	(74)	5.5	(220)	(15.5)
Valuation allowance-federal	560	(41.4)	(336)	(23.8)
Other, net	(7)	0.5	89	6.3
	<u>\$0</u>	<u>0.0%</u>	<u>\$50</u>	<u>3.5%</u>

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:

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Deferred tax assets:		
Loss carryforwards (1)	\$37,816	\$33,934
Tax credit carryforwards	707	918
Allowance for loan losses	3,330	4,561
Net unrealized loss in securities available for sale	734	702
Other loss reserves	1,413	2,370
Other	727	979
Deferred tax assets before valuation allowance	<u>44,727</u>	<u>43,464</u>
Valuation allowance	(43,763)	(42,901)
Net deferred tax assets	964	563
Deferred tax liabilities:		
Other	\$964	\$563
Total deferred tax liabilities	<u>964</u>	<u>563</u>
Net deferred tax assets	<u>\$—</u>	<u>\$—</u>

(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.

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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 \$32.9 million and \$27.2 million, respectively, for the three years ending after December 31, 2009. These losses expire in varying amounts through 2033 and are available to offset future taxable income without limitation. Similarly, CIB Marine received approximately \$0.7 million in tax credits subsequent to December 31, 2009 which are available without limitation and expire in varying amounts through 2033.

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, 2013 and 2012 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 2010, and state tax authorities for years before 2009. CIB Marine has no unrecognized tax benefits as of December 31, 2013 and 2012. CIB Marine does not anticipate material adjustments to the amount of total unrecognized tax benefits within the next twelve months.

Note 20-Parent Company Financial Statements

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

Condensed Balance Sheets

	At December 31,	
	2013	2012
	(Dollars in thousands)	
Assets		
Cash and due from affiliated banks	\$1,109	\$1,909
Investments in subsidiaries	64,952	65,597
Income tax receivable	236	236
Other assets	71	135
Total assets	\$66,368	\$67,877
Liabilities		
Other liabilities	\$173	\$248
Total liabilities	173	248
Stockholders' Equity		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed rate 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	158,493
Accumulated deficit	(159,285)	(157,931)
Accumulated other comprehensive loss related to available for sale securities	542	1,924
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(2,372)	(3,674)
Accumulated other comprehensive loss, net	(1,830)	(1,750)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	66,195	67,629
Total liabilities and stockholders' equity	\$66,368	\$67,877

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Condensed Statements of Operations

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Dividend Income		
Dividends from subsidiaries	\$—	\$—
Total dividend income	—	—
Noninterest income		
Equity in undistributed (earnings) loss of subsidiaries	(565)	2,314
Gain on sale of assets, net	12	11
Other income	1	1
Total noninterest income (loss)	(552)	2,326
Noninterest expense		
Equipment	2	53
Professional services	417	566
Insurance	196	245
Other	187	228
Total noninterest expense	802	1,092
Income (loss) before income taxes	(1,354)	1,234
Income tax benefit	—	(133)
Net income (loss)	(1,354)	1,367
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$(1,354)	\$1,367
Other comprehensive income (loss)	(80)	2,027
Comprehensive Income (loss)	\$(1,434)	\$3,394

Condensed Statement of Cash Flows

	Years Ended December 31,	
	2013	2012
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income (loss)	\$(1,354)	\$1,367
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in undistributed (earnings) loss of subsidiaries	565	(2,314)
Depreciation and amortization	—	28
Write down and losses on assets	—	9
Gain on sale of assets	(12)	(20)
Increase (decrease) in interest receivable and other assets	75	(15)
Decrease in other interest payable and other liabilities	(75)	(123)
Net cash used in operating activities	(800)	(1,068)
Cash Flows from Investing Activities:		
Fixed asset disposals	—	53
Net cash provided by investing activities	—	53
Cash Flows from Financing Activities:		
Net cash used in financing activities	—	—
Net decrease in cash and cash equivalents	(800)	(1,015)
Cash and cash equivalents, beginning of year	1,909	2,924
Cash and cash equivalents, end of year	\$1,109	\$1,909

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Note 21-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, 2013					
Total interest income	\$4,490	\$4,467	\$4,346	\$4,407	\$17,710
Total interest expense	661	644	598	567	2,470
Net interest income	3,829	3,823	3,748	3,840	15,240
Provision for (reversal of) loan losses	78	86	59	(245)	(22)
Net interest income after provision for (reversal of) loan	3,751	3,737	3,689	4,085	15,262
Gain (loss) on sale of securities	42	(47)	(3)	10	2
Other noninterest income (loss)	337	(50)	(41)	652	898
Other noninterest expense	4,096	4,492	4,490	4,438	17,516
Income (loss) before income taxes	34	(852)	(845)	309	(1,354)
Income tax expense	—	—	—	—	—
Net income (loss)	34	(852)	(845)	309	(1,354)
Preferred stock dividends	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$34	\$(852)	\$(845)	\$309	\$(1,354)
Earnings (loss) per share:					
Basic	\$0.00	\$(0.05)	\$(0.05)	\$0.02	\$(0.07)
Diluted	0.00	(0.05)	(0.05)	0.01	(0.07)

	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)	(278)	(1,612)	(104)	(22)	(2,016)
Other noninterest expense	4,604	4,732	4,518	4,885	18,739
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