

CIB MARINE BANCSHARES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

CIB MARINE BANCSHARES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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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, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), consolidated statements of stockholders' equity, and consolidated statements of 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, 2015 and 2014, 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 01, 2016

CIB MARINE BANCSHARES, INC.
Consolidated Balance Sheets

	At December 31,	
	2015	2014
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$9,170	\$8,314
Securities available for sale	94,702	88,877
Loans held for sale	12,275	5,386
Loans	445,050	387,293
Allowance for loan losses	(8,064)	(7,556)
Net loans	436,986	379,737
Federal Home Loan Bank stock	2,170	2,170
Premises and equipment, net	4,771	4,846
Accrued interest receivable	1,296	1,198
Other real estate owned, net	4,126	5,367
Bank owned life insurance	4,285	4,185
Goodwill and other intangible assets, net	243	265
Other assets	1,209	1,573
Total assets	<u>\$571,233</u>	<u>\$501,918</u>
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$77,580	\$73,228
Interest-bearing demand	33,192	31,145
Savings	162,663	154,310
Time	170,136	141,518
Total deposits	443,571	400,201
Short-term borrowings	58,883	31,260
Accrued interest payable	321	278
Other liabilities	2,872	2,646
Total liabilities	505,647	434,385
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	(159,588)	(158,983)
Accumulated other comprehensive loss, net	(2,136)	(794)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	65,586	67,533
Total liabilities and stockholders' equity	<u>\$571,233</u>	<u>\$501,918</u>

See accompanying Notes to Consolidated Financial Statements

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

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands, except per share data)	
Interest Income		
Loans	\$15,972	\$15,479
Loans held for sale	341	167
Securities	2,206	2,508
Other investments	11	8
Total interest income	<u>18,530</u>	<u>18,162</u>
Interest Expense		
Deposits	2,327	2,098
Short-term borrowings	50	39
Total interest expense	<u>2,377</u>	<u>2,137</u>
Net interest income	16,153	16,025
Provision for loan losses	61	379
Net interest income after provision for loan losses	<u>16,092</u>	<u>15,646</u>
Noninterest Income		
Deposit service charges	450	416
Other service fees	236	187
Mortgage banking revenue, net	3,724	2,510
Other income	444	447
Net gains on sale of securities	13	89
Net gains (losses) on sale of assets and (write downs)	(441)	7
Total noninterest income	<u>4,426</u>	<u>3,656</u>
Noninterest Expense		
Compensation and employee benefits	13,515	11,845
Equipment	1,068	909
Occupancy and premises	1,576	1,346
Data processing	621	514
Federal deposit insurance	425	410
Professional services	942	1,068
Telephone and data communication	411	450
Insurance	221	289
Other expense	2,338	2,165
Total noninterest expense	<u>21,117</u>	<u>18,996</u>
Income (loss) from operations before income taxes	(599)	306
Income tax expense	6	4
Net income (loss)	<u>(605)</u>	<u>302</u>
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	<u>\$(605)</u>	<u>\$302</u>
Earnings (Loss) Per Share		
Basic Net income (loss)	<u>\$(0.03)</u>	<u>\$0.02</u>
Diluted Net income (loss)	<u>\$(0.03)</u>	<u>\$0.01</u>
Weighted average shares-basic	18,127,892	18,127,892
Weighted average shares-diluted	18,127,892	35,631,892

continued

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

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Net income (loss)	\$(605)	\$302
Other comprehensive income (loss):		
Change in unrealized holding gains (losses) on securities available for sale	\$(1,028)	\$475
Change in unrealized holding gains (losses) on securities available for sale for which a portion of OTTI has been recognized in earnings, net of reclassification	(301)	567
Net realized gains on available for sale securities	(13)	(6)
Total other comprehensive income (loss)	(1,342)	1,036
Comprehensive income (loss)	\$(1,947)	\$1,338

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, 2014	18,346,391	\$18,346	\$51,000	\$158,493	\$(159,285)	\$(1,830)	\$(529)	\$66,195	
Net income	—	—	—	—	302	—	—	302	
Other comprehensive income	—	—	—	—	—	1,036	—	1,036	
Balance at December 31, 2014	18,346,391	\$18,346	\$51,000	\$158,493	\$(158,983)	\$(794)	\$(529)	\$67,533	
Net loss	—	—	—	—	(605)	—	—	(605)	
Other comprehensive loss	—	—	—	—	—	(1,342)	—	(1,342)	
Balance at December 31, 2015	18,346,391	\$18,346	\$51,000	\$158,493	\$(159,588)	\$(2,136)	\$(529)	\$65,586	

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	(605)	\$302
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred loan fee amortization	430	221
Depreciation and other amortization	1,614	1,567
Provision for loan losses	61	379
Mortgage banking revenue, net	(3,724)	(2,510)
Origination of loans held for sale	(156,544)	(88,882)
Proceeds from loans held for sale	153,379	87,084
Proceeds from sale and repayments of securities held for trading	—	1,768
Change in loans held for sale fair value	—	146
Earnings from bank owned life insurance	(100)	(96)
Net gains on sale of assets, excluding loans held for sale	(62)	(230)
Net gains on sale of securities	(13)	(89)
Write down and losses on assets, excluding loans held for sale	503	223
Decrease in interest receivable and other assets	445	796
Increase in accrued interest payable and other liabilities	403	1,737
Net cash provided by (used in) operating activities	(4,213)	2,416
Cash Flows from Investing Activities		
Maturities of securities available for sale	10,920	5,953
Purchase of securities available for sale	(8,820)	—
Repayments of asset and mortgage-backed securities available for sale	9,356	10,363
Purchase of mortgage-backed securities available for sale	(22,868)	(17,941)
Proceeds from sale of mortgage-backed securities available for sale	2,930	1,484
Net decrease in other investments	300	300
Net increase in loans	(58,052)	(48,233)
Proceeds from sales of other real estate owned	743	4,286
Premises and equipment expenditures	(426)	(412)
Net cash used in investing activities	(65,917)	(44,200)
Cash Flows from Financing Activities		
Increase in deposits, net of broker fee amortization	43,363	12,300
Net increase in short-term borrowings	27,623	26,912
Net cash provided by financing activities	70,986	39,212
Net increase (decrease) in cash and cash equivalents	856	(2,572)
Cash and cash equivalents, beginning of year	8,314	10,886
Cash and cash equivalents, end of year	\$9,170	\$8,314
Supplemental Cash Flow Information		
Cash paid (received) during the year for:		
Interest expense	\$2,334	\$2,094
Income taxes refunded	(91)	(17)

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 predominantly from loans to small and middle-market business customers and investments in securities, but also from CIB Marine’s mortgage banking activity. 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 and northeastern 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 01, 2016, 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, as applicable, 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.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which is also recognized as a separate component of equity.

Cash Flows

For purposes of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, short-term Federal Home Loan Bank (FHLB) borrowings and federal funds purchased and repurchase agreements.

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Notes to Consolidated Financial Statements

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.

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.

At December 31, 2015 and 2014, other investments, reported in other assets totaled \$0.2 million and \$0.3 million, respectively. There were no other investment sales during 2015 and 2014. Impairment losses on other investments of \$0.1 million were recognized for each of the years ended December 31, 2015 and 2014.

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

CIB MARINE BANCSHARES, INC.
Notes to Consolidated Financial Statements

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.

Loans

Loans that management has the intent and ability to hold to maturity for the foreseeable future are carried at the amount of unpaid principal, increased by costs to originate loans and premiums paid on purchased loans and reduced by net deferred fees and an allowance for loan losses. The accrual of interest on all classes of loans is generally discontinued when a loan becomes ninety days or more delinquent in accordance with the loan's contractual terms unless the credit is well secured and in process of collection. All classes of loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered by management to be doubtful. Unpaid interest that has previously been recorded as income is written off against interest income when a loan is placed on nonaccrual. Interest on loans is calculated by using the simple interest method on daily balances of the 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 \$250,000; 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,

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Notes to Consolidated Financial Statements

home equity or other consumer loans (collectively referred to as the “Consumer Segments”) for impairment unless they are TDRs.

Allowance for Loan Losses

The allowance for loan losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as reasonably estimable probable incurred losses in the loan portfolio, and represents management's estimate of losses inherent in the portfolio that may be recognized from loans that are not recoverable. The allowance for loan losses is established through a provision for loan losses charged to expense. Losses are charged against the allowance when management believes that the collectability of the principal amount is confirmed and where loans are transferred to loans held for sale at an amount less than the original carrying balance. Recoveries of amounts previously charged-off are credited to the allowance. A provision for (reversal of) loan losses, which is a charge against (credit to) earnings, is recorded to bring the allowance for loan losses to a level that, in management's judgment, is appropriate to absorb reasonably estimated probable incurred losses in the loan 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 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 CIB 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, 2015, accrued interest receivable was \$0.9 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, 2014.

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 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.

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.

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Notes to Consolidated Financial Statements

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.

Management considers the following when assessing the risk in the loan portfolio:

- Commercial loans are dependent on the condition of the industries of the related borrowers and the strength of their businesses. Commercial loans are typically advances for equipment purchases or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans and periodically obtained during the life of the loan.
- Commercial real estate loans and construction development loans are dependent on the industries tied to these loans, the local commercial real estate market and other relevant factors like the local labor markets. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.
- Residential real estate and home equity loans are loans secured with a mortgage on a residential property. These loans may be affected by the local residential real estate market, the labor markets in the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination CIBM Bank evaluates the borrower's repayment ability through a review of credit scores, debt to income ratios and other relevant factors. Appraisals are obtained to support the loan amount.
- Consumer loans are affected by labor markets in the local economy. The loans may be unsecured or secured by various assets including automobiles, equity investments, deposits and other eligible collateral. At the time of origination borrower credit worthiness is evaluated using the borrower's credit score, debt to income ratio and other relevant factors.

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 current and forever 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.

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Notes to Consolidated Financial Statements

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 2015). 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 material. CIB Marine completes 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

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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, 2015.

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

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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 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, 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 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 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.

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 enters 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

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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.

Operating Segments

CIB Marine's reportable segments are comprised of strategic business units primarily based upon industry categories and to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing. Segment determination also considered organizational structure and CIB Marine's segment reporting is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy, and allocate resources. Our chief operating decision maker is the Chief Executive Officer of CIB Marine. The mortgage segment includes the operations of the mortgage division of CIBM Bank with revenue derived from residential real estate loan originations and sales. The banking segment includes the operations of CIBM Bank and CIB Marine Capital LLC. Our banking segment derives its revenue principally from investments in interest-earning assets as well as noninterest income typical for the banking industry. Our corporate segment includes our holding company's financing and investment activities, management and administrative expenses to support the operations of the holding company.

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.

Reclassification

Certain amounts in the prior year financials have been reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity

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 were maintained to satisfy federal regulatory requirements at December 31, 2014. There was no reserve requirement at December 31, 2015. These amounts are included in cash and due from banks in the consolidated balance sheets.

Note 3-Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of available for sale securities at December 31, 2015 and 2014 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2015				
U.S. government agencies	\$8,079	\$25	\$38	\$8,066
States and political subdivisions	10,937	58	104	10,891
Trust preferred collateralized debt obligations	7,214	2	2,190	5,026
Other debt obligation	150	—	—	150

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Asset backed securities	5,272	—	150	5,122
Residential mortgage-backed securities (agencies)	64,186	741	439	64,488
Mutual funds	1,000	—	41	959
Total securities available for sale	<u>\$96,838</u>	<u>\$826</u>	<u>\$2,962</u>	<u>\$94,702</u>

December 31, 2014

U.S. government agencies	\$9,668	\$39	\$36	\$9,671
States and political subdivisions	18,310	531	172	18,669
Trust preferred collateralized debt obligations	7,513	1	1,888	5,626
Other debt obligation	150	—	—	150
Residential mortgage-backed securities (agencies)	53,030	928	161	53,797
Mutual funds	1,000	—	36	964
Total securities available for sale	<u>\$89,671</u>	<u>\$1,499</u>	<u>\$2,293</u>	<u>\$88,877</u>

Securities available for sale with a carrying value of \$55.5 million and \$55.4 million at December 31, 2015 and 2014, respectively, were pledged to secure public deposits, repurchase agreements, Federal Reserve Discount Window advances, letter of credit guidance facilities, interest rate swaps based on required amounts specified in agreements with counterparties, and for other purposes as required or permitted by law.

The amortized cost and fair value of available for sale securities at December 31, 2015, by contractual maturity are shown below. Certain securities, other than mortgage-backed securities, may be called earlier than their maturity date. Expected maturities may differ from contractual maturities in mortgage-backed securities, because certain mortgages may be prepaid without penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following contractual maturity schedule.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	\$870	\$871
Due after one year through five years	4,756	4,684
Due after five years through ten years	6,411	6,437
Due after ten years	14,343	12,141
	<u>26,380</u>	<u>24,133</u>
Mutual funds	1,000	959
Residential mortgage-backed securities (agencies)	64,186	64,488
Asset backed securities	5,272	5,122
Total securities available for sale	<u>\$96,838</u>	<u>\$94,702</u>

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, 2015 and 2014:

	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, 2015						
U.S. government agencies	\$2,304	\$9	\$2,342	\$29	\$4,646	\$38
States and political subdivisions	1,955	16	1,546	88	3,501	104
Trust preferred collateralized debt obligations	—	—	3,465	2,190	3,465	2,190
Other debt obligation	6,081	191	—	—	6,081	191
Residential mortgage-backed securities (agencies)	28,128	378	3,540	61	31,668	439
Total securities with unrealized losses	<u>\$38,468</u>	<u>\$594</u>	<u>\$10,893</u>	<u>\$2,368</u>	<u>\$49,361</u>	<u>\$2,962</u>
Securities without unrealized losses					45,341	
Total securities					<u>\$94,702</u>	
December 31, 2014						
U.S. government agencies	\$1,398	\$7	\$4,008	\$29	\$5,406	\$36
States and political subdivisions	—	—	1,459	172	1,459	172
Trust preferred collateralized debt obligations	—	—	4,031	1,888	4,031	1,888

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	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)					
Residential mortgage-backed securities (agencies)	2,719	25	11,385	136	14,104	161
Mutual funds	964	36	—	—	964	36
Total securities with unrealized losses	\$5,081	\$68	\$20,883	\$2,225	\$25,964	\$2,293
Securities without unrealized losses					62,913	
Total securities					<u>\$88,877</u>	

Net unrealized losses on investment securities were \$2.1 million and \$0.8 million at December 31, 2015 and 2014, respectively. At December 31, 2015, trust preferred collateralized debt obligations (“TPCDOs”) accounted for \$2.2 million in net unrealized losses and the remaining securities had net unrealized gains of \$0.1 million at December 31, 2015.

States and Political Subdivisions (“Municipal Securities”). At December 31, 2015, 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, 2015, this bond with a par value of \$1.6 million, amortized cost of \$1.6 million and fair market value of \$1.5 million was no longer rated. This bond was paid down \$0.9 million in par value in 2014 as a result of the City of Detroit bankruptcy settlement. This bond was originally rated AAA. The bond has received all its interest principal payments in a full and timely manner 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 as a result of its financial guarantee for the original issuance of this bond. 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, 2015. 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, 2015, CIB Marine held four TPCDOs of \$7.6 million par value with an amortized cost of \$7.2 million and fair value of \$5.0 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 C-FP and PreTSL 26 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 2015 or 2014. Deterioration in the financial industry could result in additional OTTI related to credit loss that would be recognized through a reduction in earnings. PreTSL 23 C-FP and PreTSL 26 B-1 had \$2.2 million of unrealized losses at December 31, 2015 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, the deferrals and defaults of issuers in the collateral pools had risen to a level that holders of those securities began receiving “payments-in-kind” (“PIK”) at the June 2009 payment date. However, during 2013 CIB Marine’s PreTSL 23 C-FP and 26 B-1 securities began receiving principal and interest payments again. PreTSL 23 C-FP had been in and out of a PIK status during 2014. The TPCDOs were performing as to full and timely payments throughout 2015 and at December 31, 2015.

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-

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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%.

Additional information related to the TPCDOs and related OTTI as of December 31, 2015 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	\$563	\$3,614	\$1,478	\$1,559
Fair value	\$292	\$1,778	\$1,395	\$1,561
Unrealized gain (loss)	\$(271)	\$(1,836)	\$(83)	\$2
Total Credit-Related OTTI Recognized in Earnings (1)	\$(66)	\$(103)	\$—	\$—
Moody's /S&P /Fitch Ratings	B2/NR/CCC	Ba3/NR/B	A1/NR/A	Aa3/NR/A
Percent of Current Deferrals and Defaults to Total Collateral Balances	23%	20%	23%	15%
Coverage (2)	(3)	1	50	68
Percent of expected deferrals & defaults to performing collateral (4)	4%	5%	5%	5%
Percent of excess subordination to performing collateral (5)	2%	14%	44%	49%

- (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 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.
- (3) A point within a range of estimates for the percent of future deferrals and defaults to performing collateral used in assessing credit-related OTTI.
- (4) 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 (Agencies). At December 31, 2015 and 2014 approximately 66% and 69%, respectively, of the carrying value of Agency MBS held by CIB Marine were issued by U.S. government-sponsored entities, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. At December 31, 2015 \$17.2 million of the \$64.5 million in fair value of Agency MBS were issued to finance multifamily residential properties. The remaining Agency MBS were issued by Ginnie Mae and are explicitly backed by the full faith and credit of the U.S. Government. 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, 2015.

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, 2015 and 2014:

	Years Ended December 31,	
	2015	2014
	(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	\$169
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	—	—

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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

End of year balance of credit losses related to OTTI for which a portion was recognized in AOCI (1)

	—
	—
	\$169
	\$169

(1) The remaining end of period balances of \$0.2 million in credit losses related to OTTI for which a portion was recognized in AOCI in periods prior to 2013 is related to the TPCDOs only.

Note 4-Loans and Allowance for Loan Losses

Loans

The components of loans were as follows:

	At December 31, 2015		At December 31, 2014	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial	\$61,345	13.8%	\$58,972	15.3%
Commercial real estate	214,310	48.3	194,225	50.3
Construction and development	27,431	6.2	18,293	4.7
Residential real estate	97,500	22	67,951	17.6
Home equity	32,514	7.3	32,820	8.5
Purchased home equity pools	9,341	2.1	11,962	3.1
Other consumer	1,532	0.3	1,905	0.5
Gross loans	443,973	100.0%	386,128	100.0%
Deferred loan costs	1,077		1,165	
Loans	445,050		387,293	
Allowance for loan losses	(8,064)		(7,556)	
Loans, net	\$436,986		\$379,737	

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, 2015 and 2014, 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, 2015 and 2014:

	December 31, 2015					
	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	\$50	\$129	\$—	\$179	\$60,003	\$60,182
Commercial real estate:						
Owner occupied	—	129	1,874	2,003	76,274	78,277
Non-owner occupied	—	—	—	—	135,370	135,370
Construction and development	234	—	—	234	27,197	27,431
Residential real estate:						
Owner occupied	577	—	—	577	79,191	79,768
Non-owner occupied	—	—	—	—	17,250	17,250
Home equity	646	126	—	772	30,916	31,688
Purchased home equity pools	52	19	—	71	9,270	9,341
Other consumer	10	—	—	10	1,522	1,532
Deferred loan costs	4	1	5	10	1,067	1,077
Total	\$1,573	\$404	\$1,879	\$3,856	\$438,060	\$441,916
Nonaccrual Loans (1)						
Commercial	\$1,123	\$5	\$—	\$1,128	\$35	\$1,163
Commercial real estate:						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	376	376	287	663
Construction and development	—	—	—	—	—	—
Residential real estate:						

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	December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Owner occupied	33	—	52	85	397	482
Non-owner occupied	—	—	—	—	—	—
Home equity	203	123	—	326	500	826
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—
Deferred loan costs	—	—	—	—	—	—
Total	\$1,359	\$128	\$428	\$1,915	\$1,219	\$3,134
Total loans						
Commercial	\$1,173	\$134	\$—	\$1,307	\$60,038	\$61,345
Commercial real estate:						
Owner occupied	—	129	1,874	2,003	76,274	78,277
Non-owner occupied	—	—	376	376	135,657	136,033
Construction and development	234	—	—	234	27,197	27,431
Residential real estate:						
Owner occupied	610	—	52	662	79,588	80,250
Non-owner occupied	—	—	—	—	17,250	17,250
Home equity	849	249	—	1,098	31,416	32,514
Purchased home equity pools	52	19	—	71	9,270	9,341
Other consumer	10	—	—	10	1,522	1,532
Deferred loan costs	4	1	5	10	1,067	1,077
Total	\$2,932	\$532	\$2,307	\$5,771	\$439,279	\$445,050

	December 31, 2014					
	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	\$200	\$—	\$—	\$200	\$58,278	\$58,478
Commercial real estate:						
Owner occupied	—	5	—	5	57,967	57,972
Non-owner occupied	232	69	—	301	133,887	134,188
Construction and development	68	—	—	68	17,420	17,488
Residential real estate:						
Owner occupied	92	309	—	401	51,771	52,172
Non-owner occupied	—	—	—	—	15,298	15,298
Home equity	496	301	—	797	31,371	32,168
Purchased home equity pools	44	44	—	88	11,874	11,962
Other consumer	—	100	—	100	1,805	1,905
Deferred loan costs	4	3	—	7	1,158	1,165
Total	\$1,136	\$831	\$—	\$1,967	\$380,829	\$382,796
Nonaccrual Loans (1)						
Commercial	\$—	\$—	\$—	\$—	\$494	\$494
Commercial real estate:						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	1,679	1,679	386	2,065
Construction and development	—	—	805	805	—	805
Residential real estate:						
Owner occupied	—	123	300	423	58	481
Non-owner occupied	—	—	—	—	—	—
Home equity	65	29	37	131	521	652
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—
Deferred loan costs	—	—	—	—	—	—
Total	\$65	\$152	\$2,821	\$3,038	\$1,459	\$4,497
Total loans						
Commercial	\$200	\$—	\$—	\$200	\$58,772	\$58,972
Commercial real estate:						
Owner occupied	—	5	—	5	57,967	57,972
Non-owner occupied	232	69	1,679	1,980	134,273	136,253
Construction and development	68	—	805	873	17,420	18,293
Residential real estate:						
Owner occupied	92	432	300	824	51,829	52,653

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Notes to Consolidated Financial Statements

	December 31, 2014					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Non-owner occupied	—	—	—	—	15,298	15,298
Home equity	561	330	37	928	31,892	32,820
Purchased home equity pools	44	44	—	88	11,874	11,962
Other consumer	—	100	—	100	1,805	1,905
Deferred loan costs	4	3	—	7	1,158	1,165
Total	\$1,201	\$983	\$2,821	\$5,005	\$382,288	\$387,293

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

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

	At December 31,	
	2015	2014
	(Dollars in thousands)	
Nonaccrual-loans	\$3,134	\$4,497
Nonaccrual-loans held for sale	—	—
Restructured loans accruing	3,733	4,873
90 days or more past due and still accruing-loans	1,874	—

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,			
	2015	2014	2015	2014
	Nonaccrual		Loans Past Due Over 90 Days on Accrual	
	(Dollars in thousands)			
Commercial	\$1,163	\$494	\$—	\$—
Commercial real estate:				—
Owner occupied	—	—	1,874	—
Non-owner occupied	663	2,065	—	—
Construction and development	—	805	—	—
Residential real estate:				—
Owner occupied	482	481	—	—
Home equity	826	652	—	—
Other consumer	—	—	—	—
Total	\$3,134	\$4,497	\$1,874	\$—

The following table presents loans individually evaluated for impairment by class of loans at and for the years ended December 31, 2015 and 2014:

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
December 31, 2015					
With no related allowance:					
Commercial	\$69	\$69	\$4	\$60	\$—
Commercial real estate:					—
Owner occupied	—	—	—	387	—
Non-owner occupied	1,588	1,029	7	2,174	10
Construction and development	—	—	—	483	—
Residential real estate:					—
Owner occupied	345	345	1	265	—
Home equity	421	421	7	211	2
	\$2,423	\$1,864	\$19	\$3,580	\$12

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	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Commercial	\$1,123	\$1,123	\$493	\$1,257	\$1
Commercial real estate:					
Owner occupied	1,874	1,874	115	1,518	62
Non-owner occupied	543	543	—	1,402	23
Residential real estate:					
Owner occupied	236	231	24	384	1
Home equity	1,344	1,344	148	1,339	10
Purchased home equity pools	389	389	26	395	—
Other consumer	—	—	—	—	—
	<u>5,509</u>	<u>5,504</u>	<u>806</u>	<u>6,295</u>	<u>97</u>
Total	<u>\$7,932</u>	<u>\$7,368</u>	<u>\$825</u>	<u>\$9,875</u>	<u>\$109</u>
December 31, 2014					
With no related allowance:					
Commercial	\$—	\$—	\$—	\$12	\$—
Commercial real estate:					
Owner occupied	1,936	1,936	—	1,970	15
Non-owner occupied	4,469	3,301	—	2,045	9
Construction and development	805	805	—	1,341	—
Residential real estate:					
Owner occupied	248	211	—	211	—
Home equity	160	160	—	244	2
	<u>\$7,618</u>	<u>\$6,413</u>	<u>\$—</u>	<u>\$5,823</u>	<u>\$26</u>
With an allowance recorded:					
Commercial	\$494	\$494	\$252	\$402	\$—
Commercial real estate:					
Non-owner occupied	2,576	2,576	432	2,521	7
Residential real estate:					
Owner occupied	453	449	32	626	3
Home equity	1,301	1,301	143	1,283	8
Purchased home equity pools	400	400	41	406	—
Other consumer	—	—	—	2	—
	<u>5,224</u>	<u>5,220</u>	<u>900</u>	<u>5,240</u>	<u>18</u>
Total	<u>\$12,842</u>	<u>\$11,633</u>	<u>\$900</u>	<u>\$11,063</u>	<u>\$44</u>

Payments received on impaired loans that are accruing are recognized in interest income according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are generally not recognized in interest income, but are applied as a reduction to the principal outstanding. The total amount of cash basis income recognized on impaired loans was immaterial for 2015 and 2014.

Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of year	\$7,556	\$8,308
Charge-offs	(384)	(1,999)
Recoveries	831	868
Net loan (charge-offs) recovery	447	(1,131)
Provision for (reversal of) loan losses	61	379
Balance at end of year	<u>\$8,064</u>	<u>\$7,556</u>
Allowance for loan losses as a percentage of loans	<u>1.81%</u>	<u>1.95%</u>

A summary of the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2015 and 2014 is as follows.

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At or For the Year Ended December 31, 2015

	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total
(Dollars in thousands)								
Balance at beginning of year	\$1,023	\$3,724	\$429	\$581	\$913	\$845	\$41	\$7,556
Provision (credit) for loan losses	584	(9)	166	68	(258)	(479)	(11)	61
Charge-offs	(62)	(32)	—	(17)	(74)	(195)	(4)	(384)
Recoveries	22	434	—	37	136	201	1	831
Balance at end of year	\$1,567	\$4,117	\$595	\$669	\$717	\$372	\$27	\$8,064

Allowance for loan losses:

Ending balance individually evaluated for impairment	\$497	\$122	\$—	\$25	\$155	\$26	\$—	\$825
Ending balance collectively evaluated for impairment	1,070	3,995	595	644	562	346	27	7,239

Loans:

Ending balance individually evaluated for impairment	\$1,192	\$3,446	\$—	\$576	\$1,765	\$389	\$—	\$7,368
Ending balance collectively evaluated for impairment	60,153	210,864	27,431	96,924	30,749	8,952	1,532	436,605

At or For the Year Ended December 31, 2014

	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total
(Dollars in thousands)								
Balance at beginning of year	\$1,125	\$4,195	\$473	\$440	\$834	\$1,186	\$55	\$8,308
Provision (credit) for loan losses	(192)	87	(28)	(55)	133	430	4	379
Charge-offs	(14)	(616)	(19)	(181)	(198)	(949)	(22)	(1,999)
Recoveries	104	58	3	377	144	178	4	868
Balance at end of year	\$1,023	\$3,724	\$429	\$581	\$913	\$845	\$41	\$7,556

Allowance for loan losses:

Ending balance individually evaluated for impairment	\$252	\$432	\$—	\$32	\$143	\$41	\$—	\$900
Ending balance collectively evaluated for impairment	771	3,292	429	549	770	804	41	6,656

Loans:

Ending balance individually evaluated for impairment	\$494	\$7,813	\$805	\$660	\$1,461	\$400	\$—	\$11,633
Ending balance collectively evaluated for impairment	58,478	186,412	17,488	67,291	31,359	11,562	1,905	374,495

Troubled Debt Restructurings

CIB Marine has allocated \$0.3 million and \$0.4 million of specific reserves to customers whose loan terms have been modified as TDR at December 31, 2015 and 2014, respectively. CIB Marine has no additional lending commitments at December 31, 2015 and 2014 to customers with outstanding loans that are classified as TDR.

At December 31, 2015, there were \$5.1 million of TDR loans, of which \$1.4 million were classified as nonaccrual and \$3.7 million were classified as restructured loans and accruing. The change in TDR loans from December 31, 2014 to December 31, 2015 was primarily due to \$4.0 million of payments and paid-off TDR loans, \$0.04 million of net recovered charge-offs and \$0.1 million removed from TDR loans offset by \$0.8 million of additional loans added to TDR. At December 31, 2014, there were \$8.5 million TDR loans, of which \$3.6 million were classified as nonaccrual and \$4.9 million were classified as restructured loans and accruing. For the years ending 2015 and 2014, net charge-offs related to troubled debt restructurings totalled \$0.6 million and \$1.2 million, respectively.

The following tables show the modifications for TDRs made during 2015 and 2014, and TDRs for which there were payment defaults during the periods on modifications made during the prior twelve months:

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	Years Ended December 31,					
	2015			2014		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructuring made during the year						
Commercial	1	\$29	\$29	—	\$—	\$—
Residential real estate:						
Owner occupied	2	358	358	—	—	—
Home equity	3	392	392	3	246	246
	6	\$779	\$779	3	\$246	\$246

	Years Ended December 31,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled Debt Restructuring that subsequently defaulted				
Home equity	1	\$70	—	\$—
	1	\$70	—	\$—

The TDRs described above increased the allowance for loan losses nominally during the years ended December 31, 2015 and 2014 and resulted in zero charge offs for both 2015 and 2014.

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 2015. 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.

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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. CIB Bank does not originate subprime loans or non-traditional residential real estate loans. If new information obtained indicates deteriorated risk, the loan is downgraded using the same category descriptions as used for commercial, commercial real estate and construction and development loans. In addition, CIB Marine further considers current payment status as an indicator of which risk category to assign the borrower, but only in the direction of a deteriorated risk category. Loans past due 60-89 days are classified as substandard-accrual and loans 90 days or more past due are classified as doubtful. In the special case of the loans that are part of the purchased home equity pools, loans past due 27-89 days with certain other higher risk qualities at origination are considered substandard-accrual and 90 days past due loans are charged-off in full. This was increased from 87 to 90 days during 2014. As a result there are no balances for these loans in substandard-nonaccrual or doubtful categories.

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

Loans not meeting the criteria above for risk categorization as part of the above described processes are considered to be pass-rated loans. All loans are rated. At December 31, 2015 and 2014, 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, 2015						
Commercial	\$57,421	\$2,732	\$29	\$1,163	\$—	\$61,345
Commercial real estate:						
Owner occupied	74,207	2,196	1,874	—	—	78,277
Non-owner occupied	129,484	3,430	2,456	663	—	136,033
Construction and development	27,431	—	—	—	—	27,431
Residential real estate:						
Owner occupied	79,622	122	24	430	52	80,250
Non-owner occupied	17,229	—	21	—	—	17,250
Home equity	30,431	714	543	826	—	32,514
Purchased home equity pools	8,808	—	533	—	—	9,341
Other consumer	1,519	13	—	—	—	1,532
	<u>\$426,152</u>	<u>\$9,207</u>	<u>\$5,480</u>	<u>\$3,082</u>	<u>\$52</u>	<u>443,973</u>
Deferred loan costs						1,077
Total						<u>\$445,050</u>
December 31, 2014						
Commercial	\$57,819	\$616	\$43	\$494	\$—	\$58,972
Commercial real estate:						
Owner occupied	54,263	1,768	1,941	—	—	57,972
Non-owner occupied	126,729	4,411	3,048	2,065	—	136,253
Construction and development	17,488	—	—	805	—	18,293
Residential real estate:						
Owner occupied	51,595	133	444	181	300	52,653
Non-owner occupied	15,274	24	—	—	—	15,298
Home equity	30,809	484	875	615	37	32,820
Purchased home equity pools	9,354	—	2,608	—	—	11,962
Other consumer	1,789	16	100	—	—	1,905
	<u>\$365,120</u>	<u>\$7,452</u>	<u>\$9,059</u>	<u>\$4,160</u>	<u>\$337</u>	<u>386,128</u>
Deferred loan costs						1,165
Total						<u>\$387,293</u>

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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 with a Pass credit quality rating at December 31, 2015. The activity in these loans during 2015 and 2014 is as follows:

	For the Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of year	\$4,076	\$1,576
Advances	12,753	14,117
Repayments	(13,267)	(11,617)
Balance at end of year	<u>\$3,562</u>	<u>\$4,076</u>

Note 5-Premises and Equipment, net

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

	At December 31,	
	2015	2014
	(Dollars in thousands)	
Land	\$1,199	\$1,199
Buildings	4,033	4,039
Leasehold improvements	777	754
Furniture and equipment	5,735	6,820
	<u>11,744</u>	<u>12,812</u>
Less: accumulated depreciation	(6,973)	(7,966)
	<u>\$4,771</u>	<u>\$4,846</u>

Depreciation expense was \$0.5 million and \$0.4 million for the years ended December 31, 2015 and 2014, respectively. Total rental expense, which includes the acceleration of lease expense on a closed branch, was \$0.8 million and \$0.5 million for 2015 and 2014, respectively. The increase in rent expense was due to the opening of a new location during the fourth quarter of 2014 and another during the second quarter of 2015.

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, 2015.

	At December 31, 2015
	(Dollars in thousands)
2016	\$763
2017	716
2018	603
2019	496
2020	322
Thereafter	1,129
	<u>\$4,029</u>

Note 6-Other Real Estate Owned

A summary of OREO is as follows:

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of year	\$5,367	\$9,700
Transfer of loans to OREO	—	—
Sale proceeds	(743)	(4,286)
Gains from sale of OREO	2	174
Write down and losses on sales of OREO	(500)	(221)
Balance at end of year	<u>\$4,126</u>	<u>\$5,367</u>

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

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of year	\$1,098	\$1,480
Reduction from sales of real estate owned	(75)	(524)
Provision for write downs charged to operations	499	142
Balance at end of year	\$1,522	\$1,098

Net expenses from operations of OREO, gains/losses on disposals and write downs of properties were \$0.5 million and \$0.2 million for the years ended December 31, 2015 and 2014, respectively.

Note 7 – Goodwill and Intangible Assets

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

	For the Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Beginning of the year	\$65	\$65
Acquired goodwill	—	—
Impairment	—	—
End of year	\$65	\$65

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, 2015 or 2014.

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,			
	2015		2014	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
	(Dollars in thousands)			
Amortized intangible assets:				
Mortgage banking intangibles	\$223	\$45	\$223	\$22

Aggregate amortization expense was \$0.02 million for both 2015 and 2014. Estimated amortization expense for each of the next five years is \$0.02 million per year.

Note 8-Federal Home Loan Bank Chicago

As a member of the Federal Home Loan Bank-Chicago (FHLBC), CIBM Bank is required to maintain minimum amounts of FHLBC stock as required by that institution. At December 31, 2015 and 2014, CIB Marine owned \$2.2

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million carrying value in FHLBC stock and the stock is carried at par, of which \$1.9 million and \$1.4 million, respectively, were required stock holdings with the FHLBC based on the asset size of CIBM Bank. 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 the improved long-term performance outlook of the FHLBC, no impairment has been recorded on the FHLBC stock during 2015 and 2014.

Note 9-Deposits

The aggregate amount of time deposits that meet or exceed the Federal Deposit Insurance Corporation (“FDIC”) Insurance limit of \$250,000 or more at December 31, 2015 and 2014 was \$10.9 million and \$6.8 million, respectively. Included in time deposits are public deposits totaling \$3.8 million and \$2.6 million at December 31, 2015 and 2014, respectively, which were collateralized with pledged securities. The scheduled maturities of time deposits are as follows:

	At December 31, 2015
	(Dollars in thousands)
2016	\$104,362
2017	10,891
2018	15,274
2019	29,185
2020	7,145
Thereafter	3,279
	\$170,136

Note 10-Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. 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)					
2015						
Securities sold under repurchase agreements	\$20,383	0.11%	34.6%	\$31,635	0.10%	\$36,253
Federal Home Loan Bank borrowings	38,500	0.16	65.4	10,349	0.16	38,500
	\$58,883	0.14	100.0	\$41,984	0.12%	58,883
2014						
Securities sold under repurchase agreements	\$21,260	0.10%	68.0%	\$11,305	0.11%	\$24,927
Federal Home Loan Bank borrowings	10,000	0.21	32.0	17,573	0.15	32,000
	\$31,260	0.14	100.0	\$28,878	0.14%	53,813

Federal Fund Purchased

Federal funds purchased generally represent unsecured one-day borrowings. At December 31, 2015 and 2014 CIB Marine had no federal funds purchased.

Securities Sold Under Agreements to Repurchase

Securities sold under repurchase agreements are secured borrowings and represent borrowings maturing within one year. CIB Marine pledges investment securities that are collateralized by U.S. Government Agency and Agency MBS Securities to secure those borrowings. If the fair value of the securities used as collateral declines, additional collateral may be required to be provided.

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

The following table shows the remaining contractual maturity of agreement by collateral pledged:

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	At December 31, 2015				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	
	(Dollars in thousands)				
Repurchase agreements and repurchase-to-maturity transactions					
Residential mortgage-backed securities (agencies)	\$20,383	—	—	—	\$20,383
Total borrowings	\$20,383	\$—	\$—	\$—	\$20,383

Amounts related to agreements not included in offsetting disclosure.

The fair value of securities pledged to secure repurchase agreements may decline. CIB Marine manages this risk by having a policy to pledge securities valued at 1.02% above the gross outstanding balance of repurchase agreements. Securities sold under agreements to repurchase are secured by securities with a carrying amount of \$20.8 million and \$21.7 million at December 31, 2015 and 2014, respectively.

Federal Home Loan Bank - Chicago

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. CIB Bank had assets pledged at the FHLBC sufficient to support total borrowings of \$59.8 million at December 31, 2015. Those pledged assets included multifamily, residential and home equity loans that are part of the loan portfolio.

Note 11-Stockholders' Equity

Preferred Stock

The key terms of the CIB Marine Preferred stock 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.

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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, 2015 and 2014, 7,452 shares of treasury stock were directly owned by CIBM Bank and thus were not excluded from the number of shares outstanding.

Regulatory Capital Requirements

At both December 31, 2015 and 2014, CIB Marine's capital ratios were above the minimum levels. At December 31, 2015 and 2014, CIBM Bank was in compliance with its regulatory limits and minimum capital requirements.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. As of December 31, 2015, CIB Marine and CIBM Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2015 and 2014, the most recent regulatory notifications categorized the CIBM Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2015 (1)						
Total capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	\$73,519	15.45%	\$38,067	8.00%		
CIBM Bank	65,981	13.91	37,957	8.00	\$47,446	10.00%
Tier 1 capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	\$67,545	14.20%	\$28,550	6.00%		
CIBM Bank	60,024	12.65	28,468	6.00	\$37,957	8.00%
Tier 1 leverage to average assets						
CIB Marine Bancshares, Inc.	\$67,545	12.27%	\$22,022	4.00%		
CIBM Bank	60,024	10.93	21,965	4.00	\$27,457	5.00%
Common equity Tier 1 (2)						
CIBM Bank	\$60,024	12.65%	\$21,351	4.50%	\$30,840	6.50%
December 31, 2014						
Total capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	\$73,423	17.21%	\$34,140	8.00%		
CIBM Bank	64,995	15.28	34,024	8.00	\$42,530	10.00%
Tier 1 capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	\$68,062	15.95%	\$17,070	4.00%		
CIBM Bank	59,651	14.03	17,012	4.00	\$25,518	6.00%
Tier 1 leverage to average assets						
CIB Marine Bancshares, Inc.	\$68,062	13.50%	\$20,159	4.00%		
CIBM Bank	59,651	11.87	20,099	4.00	\$25,123	5.00%

(1) Under the new capital regulation implemented January 1, 2015, referred to as Basel III, a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 ("CET1"), is established above the regulatory minimum capital requirements. The capital

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conservation buffer will be phased in between January 1, 2016 and year-end 2018, becoming fully effective on January 1, 2019. Non-compliance with the capital conservation buffer can result in limitations of certain types of compensation for executive and equivalent officers. In addition, CIBM Bank made the one-time accumulated other comprehensive income opt-out election on the first Call Report filed after January 1, 2015, which allows community banks under \$250 billion a one-time opt-out election to remove the impact of certain unrealized capital gains and losses (e.g., unrealized securities gains and losses) from the calculation of capital. The election cannot be changed in future periods.

- (2) CIB Marine is a Small Bank Holding Company under Appendix C of Part 225 of the Federal Reserve regulation and, as a result, the CET1 is not applicable to CIB Marine. CET1 is applicable to CIBM Bank.

No capital contributions were made by CIB Marine to CIBM Bank in 2015 or 2014.

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 2015 or in 2014. 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. Dividends of \$1.0 million were paid to CIB Marine from its non-bank subsidiary in both 2015 and 2014.

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 12 Accumulated Other Comprehensive Income (Loss)

The following reflects changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2015 and 2014:

	Unrealized Gains and (Losses) on Available for Sale Securities	
	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Beginning balance	\$(794)	\$(1,830)
Other comprehensive income (loss) before reclassification	(1,329)	1,042
Amounts reclassified from accumulated other comprehensive income	(13)	(6)
Net current period other comprehensive income (loss)	(1,342)	1,036
Ending balance	\$(2,136)	\$(794)

The following reflects significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ending December 31, 2015 and 2014:

Details about Accumulated Other Comprehensive Income Components	Years Ended December 31,		Affected Line Item in the Statement Where Net Income is Presented
	Amount Reclassified From Accumulated Other Comprehensive Income		
	(Dollars in thousands)		
	2015	2014	
Realized gains on available for sale securities	\$13	\$89	Net gains on sale of securities
	—	—	Total impairment loss
Insignificant items	—	—	
	13	89	Total before tax
	—	—	Tax (expense) or benefit
	\$13	\$89	Net of tax

Note 13-Segment Information

The reportable segments are determined by the products and services offered, primarily distinguished between banking and mortgage banking operations. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments and deposits provide the revenues in the banking operation, and servicing fees and loan sales provide the revenues in mortgage banking. All operations are domestic.

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Accounting policies for segments are the same as those described in Note 1. Segment performance is evaluated using operating income. Income taxes are allocated and indirect expenses are allocated on revenue. Transactions among segments are made at fair value. Information reported internally for performance assessment follows:

	Year Ended December 31, 2015			
	Banking	Mortgage Banking	Other	Total Segments
	(Dollars in thousands)			
Total interest income	\$18,146	\$336	\$48	\$18,530
Total interest expense	2,350	27	—	2,377
Net interest income	15,796	310	48	16,153
Provision for (reversal of) loan losses	68	—	(7)	61
Net interest income after provision for (reversal of) loan losses	15,727	310	56	16,092
Gain on sale of securities	13	—	—	13
Other noninterest income (loss)	(565)	4,918	60	4,413
Other noninterest expense	15,223	4,889	1,005	21,117
Income (loss) before income taxes	(48)	338	(889)	(599)
Income tax expense	6	—	—	6
Net income (loss)	\$(54)	\$338	\$(889)	\$(605)
Goodwill and other intangible assets, net	\$—	\$243	\$—	\$243
Assets	\$564,059	\$12,302	\$(5,128)	\$571,233

	Year Ended December 31, 2014			
	Banking	Mortgage Banking	Other	Total Segments
	(Dollars in thousands)			
Total interest income	\$17,947	\$162	\$53	\$18,162
Total interest expense	2,128	9	—	2,137
Net interest income	15,819	153	53	16,025
Provision for (reversal of) loan losses	471	—	(92)	379
Net interest income after provision for (reversal of) loan losses	15,348	153	146	15,646
Gain on sale of securities	89	—	—	89
Other noninterest income (loss)	231	3,351	(15)	3,567
Other noninterest expense	14,606	3,190	1,200	18,996
Income (loss) before income taxes	1,062	313	(1,070)	306
Income tax expense	4	—	—	4
Net income (loss)	\$1,058	\$313	\$(1,070)	\$302
Goodwill and other intangible assets, net	\$—	\$265	\$—	\$265
Assets	\$502,268	\$5,410	\$(5,760)	\$501,918

Note 14-Earnings (Loss) Per Share

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

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Net income (loss)	\$(605)	\$302
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	\$(605)	\$302
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)	\$(0.03)	\$0.02
Diluted Net income (loss)	\$(0.03)	\$0.01

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Options to purchase 328,093 and 365,719 shares of common stock for the years ended December 31, 2015 and 2014, respectively, were excluded from the calculation of diluted earnings (loss) per share because the exercise price of the outstanding stock options was greater than the average market price of the common shares (anti-dilutive options).

At December 31, 2015 and 2014, 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 antidilutive, and therefore excluded from the calculation of diluted loss per share for the year ending December 31, 2015; and dilutive and, therefore, included in the calculation of diluted earnings per share for the year ending December 31, 2014.

Note 15-Derivatives

The following table reflects the fair value hedges included in the Consolidated Statements of Operations and Comprehensive Income (Losses). The net amount gains (losses) due to hedge ineffectiveness was nominal.

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Change in fair value of interest rate swaps hedging designated loans included in other noninterest income	\$(596)	\$(285)
Change in fair value on loans, the hedged items included in other noninterest income	596	285

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

	At December 31,			
	2015		2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate swaps related to loans	\$14,194	\$60	\$22,210	\$155
Included in other liabilities:				
Interest rate swaps related to loans	\$48,990	\$656	\$38,251	\$440

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,	
		2015	2014
		(Dollars in thousands)	
Mortgage loans held for sale	Mortgage banking income	\$6	\$(5)
Interest rate lock commitments	Mortgage banking income	1	(5)

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

	At December 31,			
	2015		2014	
	Notional Value	Fair Value	Notional Value	Fair Value
(Dollars in thousands)				
Included in other assets:				
Interest rate lock commitments	\$15,140	\$124	\$13,576	\$256
Best Effort contracts related to mortgage banking	16,922	130	1,467	1
Total included in other assets	<u>32,062</u>	<u>254</u>	<u>15,043</u>	<u>257</u>
Included in other liabilities:				
Interest rate lock commitments	\$227	\$—	\$—	\$—
Best Effort contracts related to mortgage banking	10,490	(17)	17,413	(100)
Total included in other liabilities	<u>10,717</u>	<u>\$(17)</u>	<u>17,413</u>	<u>\$(100)</u>

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

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

	At December 31,	
	2015	2014
(Dollars in thousands)		
Commitments to extend credit ⁽¹⁾ :		
Fixed	\$2,389	\$3,035
Variable	\$45,888	\$45,515
Standby letters of credit	\$1,497	\$2,233

⁽¹⁾ Interest rate lock commitments to originate residential mortgage loans held for sale are considered derivative instruments and are disclosed in Note 15.

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 were \$1.5 million and \$2.2 million with a weighted average term of approximately eleven months and ten months at December 31, 2015 and 2014, 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

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not necessarily represent future cash requirements. CIB Marine evaluates each customer's creditworthiness and determines the amount of the collateral necessary based on management's credit evaluation of the counterparty. Collateral held varies, but may include marketable securities, accounts receivable, inventories, property and equipment, and real estate. The interest rates range between 1.99% and 18.00% with a weighted average of 3.76%. The maturity dates range between January 2016 and open dated, the latter related to overdraft protection accounts. For commercial commitments to extend credit, totaling \$48.3 million, the maturity dates range between January 2016 and February 2031 with a weighted average of seventeen 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 Federal Housing Authority, Veterans Administration 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. In addition, CIB Marine does not underwrite the loans sold to the investors, instead the underwriter has underwritten all the loans sold.

Due to the fact CIB Marine does not underwrite the loans sold, its quality control program and its recent history for repurchase, 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 2015 or 2014.

Note 17-Fair Value

The following tables present information about CIB Marine's assets measured at fair value on a recurring basis at December 31, 2015 and 2014, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that CIB Marine has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

Description	Fair Value	Fair Value for Measurements Made on a Recurring Basis		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
December 31, 2014				
Assets				
U.S. government agencies	\$8,066	\$—	\$8,066	\$—
States and political subdivisions	10,891	—	10,891	—
Trust preferred securities collateralized debt obligations	5,026	—	—	5,026
Other debt obligations	150	—	150	—
Asset backed securities	5,122	—	5,122	—
Residential mortgage-backed securities (agencies)	64,488	—	64,488	—
Mutual funds	959	959	—	—
Total securities available for sale	94,702	959	88,717	5,026
Interest rate swaps	60	—	60	—

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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)		
Mortgage interest rate lock commitments	124	—	124	—
Mortgage written options	130	—	130	—
Loans held for sale, residential	12,203	—	12,203	—
Total assets	\$107,219	\$959	\$101,234	\$5,026
Liabilities				
Interest rate swaps	\$656	\$—	\$656	\$—
Mortgage written options	17	—	17	—
Total liabilities	\$673	\$—	\$673	\$—
December 31, 2014				
Assets				
U.S. government agencies	\$9,671	\$—	\$9,671	\$—
States and political subdivisions	18,669	—	18,669	—
Trust preferred securities collateralized debt obligations	5,626	—	—	5,626
Other debt obligations	150	—	150	—
Residential mortgage-backed securities (agencies)	53,797	—	53,797	—
Mutual funds	964	964	—	—
Total securities available for sale	88,877	—	82,287	5,626
Interest rate swaps	155	—	155	—
Mortgage interest rate lock commitments	256	—	256	—
Mortgage written options	1	—	1	—
Loans held for sale, residential	5,289	—	5,289	—
Total assets	\$94,578	\$964	\$87,988	\$5,626
Liabilities				
Interest rate swaps	\$440	\$—	\$440	\$—
Mortgage written options	100	—	100	—
Total liabilities	\$540	\$—	\$540	\$—

Selected additional information regarding the model inputs and assumptions used to value certain Level 3 Inputs include the following at December 31, 2015:

	Fair Value (Dollars in Thousands)	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
TPCDOs	\$5,026	Discounted cash flow	Constant prepayment rate Loss severity	1.0%-1.0% (1.0%) 85%-85% (85%)
Commercial real estate loan held for sale	72	Market approach	Loan prices	\$34

The following table presents information about CIB Marine's assets and liabilities measured at fair value on a non-recurring basis at December 31, 2015 and December 31, 2014.

Description	Fair Value	Fair Value for Measurements Made on a Nonrecurring Basis			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Year-to-Date
		(Dollars in thousands)			
December 31, 2015					
Assets					
Loans held for sale:					
Commercial real estate	\$72	\$—	\$—	\$72	\$60
Impaired loans (1)					
Commercial	665	—	665	—	(481)
Commercial real estate	1,194	—	1,194	—	433

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Description	Fair Value for Measurements Made on a Nonrecurring Basis				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Year-to-Date
	(Dollars in thousands)				
Construction and development	—	—	—	—	—
Residential real estate	—	—	—	—	—
Home equity	110	—	110	—	—
Purchased home equity pools	—	—	—	—	—
Other consumer	—	—	—	—	—
Total impaired loans	1,969	—	1,969	—	(48)
Other real estate owned:					
Commercial real estate	613	—	613	—	—
Construction and development	2,550	—	2,550	—	(177)
Residential real estate	963	—	963	—	(321)
Total	\$6,167	\$—	\$6,095	\$72	\$(486)

Description	Fair Value for Measurements Made on a Nonrecurring Basis				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Year-to-Date
	(Dollars in thousands)				
December 31, 2014					
Assets					
Loans held for sale:					
Commercial real estate	\$97	\$—	\$—	\$97	\$—
Impaired loans (1)					
Commercial	—	—	—	—	—
Commercial real estate	2,915	—	2,915	—	(286)
Construction and development	—	—	—	—	—
Residential real estate	211	—	211	—	—
Home equity	193	—	193	—	(16)
Purchased home equity pools	—	—	—	—	—
Other consumer	—	—	—	—	2
Total impaired loans	3,319	—	3,319	—	(300)
Other real estate owned:					
Commercial real estate	788	—	788	—	(28)
Construction and development	3,294	—	3,294	—	(19)
Residential real estate	1,285	—	1,285	—	—
Total	\$8,783	\$—	\$8,686	\$97	\$(347)

(1) Impaired loans gains (losses) include only those attributable to the loans represented in the fair value measurements for December 31, 2014 and December 31, 2014. Total impaired loans at December 31, 2015 and December 31, 2014 were \$7.4 million and \$11.6 million, respectively.

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

	For Years Ended December 31,	
	2015	2014
Loans held for Sale, commercial real estate		
Balance at beginning of year	\$97	\$120
Write down	—	—
Gain (loss) on sale	—	(2)
Settlements	(25)	(21)
Balance at end of year	\$72	\$97
Trading Securities		
Balance at beginning of year	\$—	\$1,688
Total gains included in earning	—	83
Total loss included in comprehensive income	—	—
Settlements	—	(1,495)
Sales	—	(276)
Balance at end of year	\$—	\$—

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Available for Sale Securities		
Balance at beginning of year	\$5,626	\$5,315
Total gains (losses) included in other comprehensive income	(300)	601
Settlements	(300)	(290)
Balance at end of year	\$5,026	\$5,626

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, 2015 and 2014 (above) are reported in other revenues as follows:

	For the Years Ended December 31,	
	2015	2014
(Dollars in thousands)		
Other Revenues		
Total gains or losses in earnings (or changes in net assets) for the period	\$—	\$83
Change in unrealized gains or losses relating to assets still held at reporting date	\$(300)	\$601

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2015 and 2014 for loans held for sale were:

	For the Years Ended December 31,	
	2015	2014
(Dollars in thousands)		
Interest income	\$338	\$162
Change in fair value	144	144
Total change in fair value	\$482	\$306

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

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

Derivative financial instrument (interest rate-related instruments): CIB Marine uses interest rate swaps to manage its interest rate risk. The valuation of CIB Marine's derivative financial instruments is determined using discounted cash flow models on the expected cash flows of each derivative. See Note 15, "Derivatives," for additional disclosure regarding CIB Marine's derivative financial instruments. The discounted cash flow analysis component in the fair value measurements reflects the contractual terms of the derivative financial instruments, including the period to maturity, and uses observable market-based inputs, including interest rate curves. More specifically, the fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments), with the variable cash payments (or receipts) based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CIB Marine determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy. The credit valuation adjustments, if any, utilize Level 3 inputs, such as estimates of current

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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, 2015 and December 31, 2014, 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,	
	2015	2014
	(Dollars in thousands)	
Aggregate fair value	\$12,203	\$5,289
Contractual balance	12,059	5,145
Gain (loss)	\$144	\$144

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 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.

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The table below summarizes fair value of financial assets and liabilities at December 31, 2015 and 2014.

	Carrying Amount	Fair Value Measurement			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
At December 31, 2015					
Financial assets:					
Cash and cash equivalents	\$9,170	\$9,170	\$—	\$—	\$9,170
Loan held for sale	12,275	—	12,203	72	12,275
Securities available for sale	94,702	959	88,717	5,026	94,702
Loans, net	436,986	—	1,969	432,010	433,979
Federal Home Loan Bank stock	2,170	NA	NA	NA	NA
Accrued interest receivable	1,296	—	362	934	1,296
Interest rate swaps	60	—	60	—	60
Mortgage interest rate lock commitments	124	—	124	—	124
Mortgage written options	130	—	130	—	130
Financial liabilities:					
Deposits	443,571	273,435	170,954	—	444,389
Short-term borrowings	58,883	—	58,883	—	58,883
Accrued interest payable	321	1	320	—	321
Interest rate swaps	656	—	656	—	656
Mortgage interest rate lock commitments	—	—	—	—	—
Mortgage written options	17	—	17	—	17

	Carrying Amount	Fair Value Measurement			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
At December 31, 2014					
Financial assets:					
Cash and cash equivalents	\$8,314	\$8,314	\$—	\$—	\$8,314
Loan held for sale	5,386	—	5,289	97	5,386
Securities available for sale	88,877	964	82,287	5,626	88,877
Loans, net	379,737	—	3,319	380,834	384,153
Federal Home Loan Bank stock	2,170	NA	NA	NA	NA
Accrued interest receivable	1,198	—	399	799	1,198
Interest rate swaps	155	—	155	—	155
Mortgage interest rate lock commitments	256	—	256	—	256
Mortgage written options	1	—	1	—	1
Financial liabilities:					
Deposits	400,201	258,683	142,466	—	401,149
Short-term borrowings	31,260	—	31,260	—	31,260
Accrued interest payable	278	1	277	—	278
Interest rate swaps	440	—	440	—	440
Mortgage interest rate lock commitments	—	—	—	—	—
Mortgage written options	100	—	100	—	100

	At December 31, 2015			At December 31, 2014		
	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	\$2,389	\$—	\$—	\$3,035	\$—	\$—
Variable	45,888	—	—	45,515	—	—
Mortgage loans to be held for sale	—	254	254	—	257	257
Standby letters of credit	1,497	(10)	(10)	2,233	(13)	(13)

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.

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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 at both December 31, 2015 and 2014.

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, 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.

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Note 18-Stock-Based Compensation

Under the terms of an incentive stock plan adopted during 1999, shares of unissued common stock were reserved for options for certain employees at prices not less than the fair value of the shares at the date of grant. These options expire ten years after the grant date with options scheduled to expire at various times through 2017. 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, 2015, and 2014 all stock options of CIB Marine are vested and all compensation expense related to stock options has been recognized.

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, 2014	372,000	\$3.70-4.10	\$3.96
Lapsed or surrendered	(9,000)	\$3.70-4.10	3.92
Shares under option at December 31, 2014	363,000	\$3.70-4.10	\$3.96
Lapsed or surrendered	(66,500)	\$3.70-4.10	3.94
Shares under option, exercisable and vested at December 31, 2015	296,500	\$3.70-4.10	\$3.96

Options outstanding have no intrinsic value at December 31, 2015 and 2014.

The following table summarizes information about stock options outstanding at December 31, 2015.

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	103,500	1.91	\$3.70	
4.10	193,000	0.96	4.10	
\$ 3.70 — 4.10	296,500	1.29	\$3.96	1.29

Note 19-Other Benefit Plans

CIB Marine provides a defined contribution 401(k) plan to all employees of CIB Marine and its subsidiaries who have attained age 18. Employees may enter the plan on the first day of the month following sixty days of employment. The plan permits participants to make voluntary tax deferred contributions up to the maximum permitted by law. Participants age 50 or older are allowed to make a stated amount of additional contributions on a tax-deferred basis as permitted by law. In 2015 and 2014, 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, 2015 and 2014. All administrative costs to maintain the plan are paid by the plan.

Note 20-Income Taxes

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

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Current tax provision:		
Federal	\$6	\$4
State	—	—
Deferred tax	—	—
	\$6	\$4

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:

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	Years Ended December 31,			
	2015		2014	
	Amount	%	Amount	%
	(Dollars in thousands)			
Income tax (benefit) at statutory tax rate	\$(210)	35.0%	\$107	35.0%
Increase (reduction) in tax rate resulting from:				
State income taxes, net of federal income tax effect and valuation allowance	(30)	5.0	(18)	(5.9)
Tax-exempt interest	(1)	0.2	(5)	(1.6)
Affordable housing credits	(1)	0.2	(24)	(7.9)
Valuation allowance-federal	250	(41.7)	(79)	(25.8)
Other, net	(2)	0.3	23	7.5
	<u>\$6</u>	<u>(1.0)%</u>	<u>\$4</u>	<u>1.3%</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,	
	2015	2014
	(Dollars in thousands)	
Deferred tax assets:		
Loss carryforwards (1)	\$37,375	\$37,570
Tax credit carryforwards	662	679
Allowance for loan losses	3,189	3,026
Net unrealized loss in securities available for sale	845	318
Other loss reserves	1,068	1,097
Other	1,111	796
Deferred tax assets before valuation allowance	<u>44,250</u>	<u>43,486</u>
Valuation allowance	(43,608)	(43,076)
Net deferred tax assets	642	410
Deferred tax liabilities:		
Other	\$642	\$410
Total deferred tax liabilities	<u>642</u>	<u>410</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.

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 \$33.0 million and \$32.0 million, respectively, for the years ending after December 31, 2009. These losses expire in varying amounts through 2034 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 2034.

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, 2015 and 2014 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, 2015 and 2014. CIB Marine does not anticipate material adjustments to the amount of total unrecognized tax benefits within the next twelve months.

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Note 21-Parent Company Financial Statements

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

Condensed Balance Sheets

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<u>(Dollars in thousands)</u>	
Assets		
Cash and due from affiliated banks	\$1,471	\$1,352
Investments in subsidiaries	63,991	66,090
Income tax receivable	153	244
Other assets	93	39
Total assets	<u>\$65,708</u>	<u>\$67,725</u>
Liabilities		
Other liabilities	\$122	\$192
Total liabilities	<u>122</u>	<u>192</u>
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	(159,588)	(158,983)
Accumulated other comprehensive loss related to available for sale securities	(29)	1,578
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(2,107)	(2,372)
Accumulated other comprehensive loss, net	(2,136)	(794)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	<u>65,586</u>	<u>67,533</u>
Total liabilities and stockholders' equity	<u>\$65,708</u>	<u>\$67,725</u>

Condensed Statements of Operations

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<u>(Dollars in thousands)</u>	
Dividend Income		
Dividends from subsidiaries	\$1,000	\$1,000
Total dividend income	1,000	1,000
Noninterest income		
Equity in undistributed (earnings) loss of subsidiaries	(758)	102
Gain on sale of assets, net	—	21
Other income	—	—
Total noninterest income (loss)	(758)	123
Noninterest expense		
Professional services	457	483
Insurance	103	126
Other	287	212
Total noninterest expense	847	821
Income (loss) before income taxes	(605)	302
Income tax benefit	—	—
Net income (loss)	<u>(605)</u>	<u>302</u>
Preferred stock dividends	—	—
Net income (loss) allocated to common stockholders	<u>\$(605)</u>	<u>\$302</u>
Other comprehensive income (loss)	<u>(1,342)</u>	<u>1,036</u>
Comprehensive Income (loss)	<u>\$(1,947)</u>	<u>\$1,338</u>

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Condensed Statement of Cash Flows

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income (loss)	\$(605)	\$302
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Equity in undistributed (earnings) loss of subsidiaries	(242)	(1,102)
Depreciation and amortization	—	—
Write down and losses on assets	—	—
Gain on sale of assets	—	—
Decrease in interest receivable and other assets	36	24
Increase (decrease) in other interest payable and other liabilities	(70)	19
Net cash used in operating activities	(881)	(757)
Cash Flows from Investing Activities:		
Payment from subsidiary	1,000	1,000
Net cash provided by investing activities	1,000	1,000
Net increase in cash and cash equivalents	119	243
Cash and cash equivalents, beginning of year	1,352	1,109
Cash and cash equivalents, end of year	<u>\$1,471</u>	<u>\$1,352</u>

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Note 22-Quarterly Consolidated Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in thousands, except share data)					
For the Year Ended December 31, 2015					
Total interest income	\$4,460	\$4,539	\$4,657	\$4,874	\$18,530
Total interest expense	571	557	595	654	2,377
Net interest income	3,889	3,982	4,062	4,220	16,153
Provision for (reversal of) loan losses	86	97	(337)	215	61
Net interest income after provision for (reversal of) loan losses	3,803	3,885	4,399	4,005	16,092
Gain on sale of securities	13	—	—	—	13
Other noninterest income	1,363	1,436	1,022	592	4,413
Other noninterest expense	5,153	5,464	5,114	5,386	21,117
Income (loss) before income taxes	26	(143)	307	(789)	(599)
Income tax expense	—	—	—	6	6
Net income (loss)	26	(143)	307	(795)	(605)
Preferred stock dividends	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$26	\$(143)	\$307	\$(795)	\$(605)
Earnings (loss) per share:					
Basic	\$0.00	\$(0.01)	\$0.02	\$(0.04)	\$(0.03)
Diluted	0.00	(0.01)	0.01	(0.04)	(0.03)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in thousands, except share data)					
For the Year Ended December 31, 2014					
Total interest income	\$4,416	\$4,480	\$4,643	\$4,623	\$18,162
Total interest expense	512	534	526	565	2,137
Net interest income	3,904	3,946	4,117	4,058	16,025
Provision for loan losses	11	150	211	7	379
Net interest income after provision for loan losses	3,893	3,796	3,906	4,051	15,646
Gain on sale of securities	3	13	65	8	89
Other noninterest income	707	860	977	1,023	3,567
Other noninterest expense	4,468	4,645	4,896	4,987	18,996
Income before income taxes	135	24	52	95	306
Income tax expense (benefit)	2	(2)	8	(4)	4
Net income	133	26	44	99	302
Preferred stock dividends	—	—	—	—	—
Net income attributable to common stockholders	\$133	\$26	\$44	\$99	\$302
Earnings per share:					
Basic	\$0.01	\$0.00	\$0.00	\$0.01	\$0.02
Diluted	0.00	0.00	0.00	0.00	0.01