SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

Commission File number 000-24149

CIB MARINE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	**37-1203599** (IRS Employer Identification No.)

N27 W24025 Paul Court, Pewaukee, Wisconsin 53072
(Address of principal executive offices, Zip Code)

(262) 695-6010
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

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

At June 30, 2007 CIB Marine had 18,346,442 shares of common stock outstanding.

EXPLANATORY NOTE

This document is intended to speak as of June 30, 2005, except as otherwise noted

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CIB MARINE BANCSHARES, INC.

Consolidated Balance Sheets

	June 30, 2005 (Unaudited)	December 31, 2004
	(Dollars in thousands, except share data)	
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 33,210	$ 41,777
Federal funds sold	90,286	192,158
Total cash and cash equivalents	123,496	233,935
Loans held for sale	15,885	—
Securities	513,307	379,024
Loans	577,926	746,615
Allowance for loan losses	(24,470)	(29,551)
Net loans	553,456	717,064
Premises and equipment, net	14,780	14,099
Accrued interest receivable	5,036	5,122
Foreclosed properties	2,822	2,938
Assets of branches held for sale	317	—
Assets of companies held for disposal	12,219	14,865
Goodwill	982	982
Other assets	10,830	17,879
Total assets	$ 1,253,130	$ 1,385,908
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 114,538	$ 117,546
Interest-bearing demand	53,433	63,886
Savings	241,429	271,712
Time	632,057	725,344
Total deposits	1,041,457	1,178,488
Short-term borrowings	20,803	18,809
Long-term borrowings	7,250	7,250
Junior subordinated debentures	61,857	61,857
Accrued interest payable	13,573	10,644
Deposits of branches held for sale	7,699	—
Liabilities of companies held for disposal	10,007	10,137
Other liabilities	5,549	5,831
Total liabilities	1,168,195	1,293,016
Stockholders' Equity		
Preferred stock, $1 par value; 5,000,000 shares authorized, none issued	—	—
Common stock, $1 par value; 50,000,000 shares authorized, 18,346,442 issued and outstanding	18,346	18,346
Capital surplus	158,163	158,163
Accumulated deficit	(89,546)	(81,867)
Accumulated other comprehensive loss, net	(920)	(642)
Receivables from sale of stock	(946)	(946)
Treasury stock at cost 12,663 shares	(162)	(162)
Total stockholders' equity	84,935	92,892
Total liabilities and stockholders' equity	$ 1,253,130	$ 1,385,908

See accompanying Notes to Unaudited Consolidated Financial Statements

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CIB MARINE BANCSHARES, INC.

Consolidated Statements of Operations
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands, except share and per share data)			
Interest and Dividend Income				
Loans	$ 9,407	$ 15,204	$ 20,377	$ 32,440
Loans held for sale	3	165	3	167
Securities:				
Taxable	3,551	2,017	6,380	4,112
Tax-exempt	171	225	348	456
Dividends	366	129	727	277
Federal funds sold	1,177	92	2,246	249
Total interest and dividend income	14,675	17,832	30,081	37,701
Interest Expense				
Deposits	6,802	7,444	13,479	15,836
Short-term borrowings	91	346	146	637
Long-term borrowings	92	130	182	332
Junior subordinated debentures	1,648	1,401	3,209	2,764
Total interest expense	8,633	9,321	17,016	19,569
Net interest income	6,042	8,511	13,065	18,132
Provision for credit losses	(1,916)	8,670	(3,043)	15,991
Net interest income (loss) after provision for credit losses	7,958	(159)	16,108	2,141
Noninterest Income				
Loan fees	104	218	222	494
Deposit service charges	258	465	568	895
Other service fees	167	36	528	94
Other income	50	72	179	116
Gain on sale of investment securities, net	154	—	154	—
Total noninterest income	733	791	1,651	1,599
Noninterest Expense				
Compensation and employee benefits	6,603	7,579	13,663	15,625
Equipment	1,019	1,105	1,964	2,255
Occupancy and premises	955	776	1,946	1,623
Professional services	1,281	1,343	1,828	1,920
Impairment loss on investment securities	42	—	1,162	—
Write down and losses on assets	1,402	1,001	1,699	1,199
Other expense	2,620	1,794	4,749	4,038
Total noninterest expense	13,922	13,598	27,011	26,660
Loss from continuing operations before income taxes	(5,231)	(12,966)	(9,252)	(22,920)
Income tax benefit	(162)	(1,142)	(157)	(2,543)
Loss from continuing operations	(5,069)	(11,824)	(9,095)	(20,377)
Discontinued Operations:				
Pretax income (loss) from discontinued operations	2,745	(3,146)	3,473	(5,327)
Pretax gain on sale of discontinued operations	—	235	—	235
Total pretax income (loss) from discontinued operations	2,745	(2,911)	3,473	(5,092)
Income tax expense	162	1,130	2,057	2,191
Income (loss) from discontinued operations	2,583	(4,041)	1,416	(7,283)
Net loss	$ (2,486)	$(15,865)	$ (7,679)	$(27,660)

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Consolidated Statements of Operations — continued

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands, except share and per share data)			
Loss Per Share				
Basic:				
Loss from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Discontinued operations	0.14	(0.22)	0.08	(0.40)
Net loss	$ (0.14)	$ (0.87)	$ (0.42)	$ (1.52)
Diluted:				
Loss from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Discontinued operations	0.14	(0.22)	0.08	(0.40)
Net loss	$ (0.14)	$ (0.87)	$ (0.42)	$ (1.52)
Weighted average shares — basic	18,333,779	18,259,831	18,333,779	18,259,831
Weighted average shares — diluted	18,333,779	18,259,831	18,333,779	18,259,831

See accompanying Notes to Unaudited Consolidated Financial Statements

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CIB MARINE BANCSHARES, INC.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Par Value	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Stock Receivables and Treasury Stock	Total
	(Dollars in thousands, except share data)						
Balance, December 31, 2003	18,346,442	$ 18,346	$158,163	$ (62,759)	$ 2,184	$ (7,411)	$108,523
Comprehensive loss:							
Net loss	—	—	—	(27,660)	—	—	(27,660)
Other comprehensive loss:							
Unrealized securities holding losses arising during the period	—	—	—	—	(5,104)	—	(5,104)
Total comprehensive loss							(32,764)
Reduction of receivables from sale of stock	—	—	—	—	—	1,115	1,115
Balance, June 30, 2004 (unaudited)	18,346,442	$ 18,346	$158,163	$ (90,419)	$ (2,920)	$ (6,296)	$ 76,874
Balance, December 31, 2004	18,346,442	$ 18,346	$158,163	$ (81,867)	$ (642)	$ (1,108)	$ 92,892
Comprehensive loss:							
Net loss	—	—	—	(7,679)	—	—	(7,679)
Other comprehensive loss:							
Realized losses on securities available for sale	—	—	—	—	(1,162)	—	(1,162)
Unrealized securities holding gains arising during the period	—	—	—	—	884	—	884
Total comprehensive loss							(7,957)
Balance, June 30, 2005 (unaudited)	18,346,442	$ 18,346	$158,163	$ (89,546)	$ (920)	$ (1,108)	$ 84,935

See accompanying Notes to Unaudited Consolidated Financial Statements

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CIB MARINE BANCSHARES, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2005	2004
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net loss from continuing operations	$ (9,095)	$ (20,377)
Net income (loss) from discontinued operations	1,416	(7,283)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred loan fee amortization	(492)	(1,033)
Depreciation and other amortization	1,399	3,540
Provision for credit losses	(3,043)	15,991
Deferred tax expense	—	10,483
Write down and losses on assets	1,699	1,199
Impairment loss on investment securities	1,162	—
Gain on sale of investment securities	(154)	—
Decrease in interest receivable and other assets	6,518	3,322
Increase in interest payable junior subordinated debentures	3,181	2,737
Increase (decrease) in other interest payable and other liabilities	(696)	1,328
Operating cash flows of discontinued operations	2,279	(17,257)
Net cash provided by (used in) operating activities	4,174	(7,350)
Cash Flows from Investing Activities		
Maturities of securities available for sale	309,824	267,247
Purchase of securities available for sale	(274,457)	(273,126)
Proceeds from sales of securities available for sale	4,762	—
Repayments of asset and mortgage-backed securities available for sale	27,960	26,606
Purchase of asset and mortgage-backed securities available for sale	(191,475)	(21,725)
Net increase in Federal Home Loan Bank Stock	(11,951)	(78)
Net (increase) decrease in other investments	(13)	2,116
Net decrease in loans	148,476	173,761
Proceeds from sale of foreclosed properties	1,372	704
Proceeds from sale of subsidiaries	—	(152)
Capital expenditures	(2,190)	(859)
Investing cash flows of discontinued operations	237	228,645
Net cash provided by investing activities	12,545	403,139
Cash Flows from Financing Activities		
Decrease in deposits	(129,152)	(156,648)
Repayments of long-term borrowings	—	(8,500)
Net increase (decrease) in short-term borrowings	1,994	(1,163)
Financing cash flows of discontinued operations	—	(97,589)
Net cash used in financing activities	(127,158)	(263,900)
Net increase (decrease) in cash and cash equivalents	(110,439)	131,889
Cash and cash equivalents, beginning of period	233,935	119,804
Cash and cash equivalents, end of period	$ 123,496	$ 251,693
Supplemental Cash Flow Information		
Cash paid (received) during the period for:		
Interest expense-continuing operations	$ 14,087	$ 17,446
Interest expense-discontinued operations	30	17,077
Income taxes-continuing operations	(6,221)	(1,992)
Income taxes-discontinued operations	—	(7,776)
Supplemental Disclosures of Noncash Activities		
Transfer of loans to foreclosed properties-continuing operations	1,100	—
Transfers of commercial loans to loans held for sale-continuing operations	17,460	13,670
Transfers of commercial loans to loans held for sale-discontinued operations	—	4,530
Transfer deposits to deposits of branches held for sale	7,699	—
Transfer assets to assets of branches held for sale	317	—

Decrease in foreclosed properties and short-term borrowings satisfied by the transfer of real estate	—	25,120

See accompanying Notes to Unaudited Consolidated Financial Statements

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CIB MARINE BANCSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 — Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Certain information and footnote disclosures have been omitted or abbreviated. These unaudited consolidated financial statements should be read in conjunction with CIB Marine Bancshares, Inc.'s ("CIB Marine") 2004 Annual Report on Form 10-K. In the opinion of management, the unaudited consolidated financial statements included in this report reflect all adjustments which are necessary to present fairly CIB Marine's financial condition, results of operations, and cash flows as of and for the quarter and six month periods ended June 30, 2005 and 2004. The results of operations for the quarter and six months ended June 30, 2005 are not necessarily indicative of results for the entire year. The consolidated financial statements include the accounts of CIB Marine and its wholly-owned and majority-owned subsidiaries, including companies which are held for disposal. All significant intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates used in the preparation of the financial statements are based on various factors, including the current interest rate environment and the general strength of the local economy. Changes in these factors can significantly affect CIB Marine's net interest income and the value of its recorded assets and liabilities.

Assets and liabilities of companies held for disposal include the remaining assets of Mortgage Services, Inc. ("MSI"), MICR ("MICR") n/k/a Everett Tech, Inc, and CIB Construction, LLC including Canron Corporation ("Canron") (collectively referred to as "CIB Construction"). MICR and Canron were acquired in full or partial satisfaction of loans. CIB Marine sold substantially all of the assets and operations of MSI in the third quarter of 2004 and is in the process of winding down the remaining affairs of MSI. Assets and liabilities of companies held for disposal are carried at the lower of cost or current fair value, less estimated selling costs and the aggregate assets and liabilities are shown as separate categories on the consolidated balance sheets. The net income of companies which meet the criteria as discontinued operations and which are held for disposal at June 30, 2005 are included in income from discontinued operations for all periods presented. Loss from discontinued operations for 2004 also includes the net income of companies sold during 2004. Companies sold during 2004 include Hillside Investors, LTD ("Hillside"), a one bank holding company, including Hillside's banking subsidiary CIB Bank ("CIB — Chicago") and CIB Marine Commercial Finance, LLC ("Commercial Finance"). The consolidated results of MICR and Hillside were reclassified from continuing operations to discontinued operations for the quarter and six months ended June 30, 2004. The impact of these reclassifications on the consolidated statement of operations for both the quarter and six months ended June 30, 2004 was a $3.9 million increase in loss from discontinued operations and a $3.9 million decrease in loss from continuing operations, including $0.1 million and $1.5 million in related tax expense, respectively, for the quarter and six months ended June 30, 2004. All intercompany balances and transactions have been eliminated in the assets and liabilities of companies held for disposal and net income or loss from discontinued operations as presented on the consolidated financial statements.

At June 30, 2005, CIB Marine has determined it has one reportable continuing business segment. CIB Marine, through the bank branch network of its subsidiaries, provides a broad range of financial services to companies and individuals in Illinois, Wisconsin, Indiana, Florida, Arizona, Nevada and Nebraska. These services include commercial and retail lending and accepting deposits. While CIB Marine's chief operating decision maker monitors the revenue streams of the various products and services, operations in all areas are managed and financial performance is evaluated on a corporate-wide basis.

Note 2 — Stock Option Plans

CIB Marine has a nonqualified stock option and incentive plan for its employees and directors. At June 30, 2005, options to purchase 1,034,980 shares were available for future grant. The plan provides for the options to be exercisable over a ten-year period beginning one year from the date of the grant, provided the participant has remained in the employ of, or on the Board of Directors of CIB Marine and/or one of its subsidiaries. The plan also provides that the exercise price of the options granted may not be less than 100% of fair market value on the option grant date. Options vest over five years.

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The following is a reconciliation of stock option activity for the six months ended June 30, 2005:

	Number of Shares	Range of Option Prices per Share	Weighted Average Exercise Price
Shares under option at December 31, 2004	791,331	$ 8.50-23.66	$ 16.35
Granted	—	$ —	$ —
Lapsed or surrendered	(190,581)	8.50-22.89	15.05
Exercised	—	—	—
Shares under option at June 30, 2005	600,750	$10.87-23.66	$ 16.76
Share exercisable at June 30, 2005	528,601	$10.87-23.66	$ 16.14

CIB Marine applies Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations in accounting for its stock-based compensation plans. Under SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), companies may elect to recognize stock-based compensation expense based on the fair value method of the awards or continue to account for stock-based compensation under APB 25. CIB Marine has elected to continue to apply the provisions of APB 25.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised), *Share-Based Payment (SFAS 123 R).* The objective of SFAS 123R is to recognize in an entity's financial statements the cost of employee services received in exchange for valuable equity instruments issued to employees in share-based payment transactions. A key provision of the statement requires public companies to adopt Statement 123's fair-value method of accounting. Under this method, the cost of employee services received in exchange for equity instruments would be measured based on the grant-date fair value of these instruments. The cost would be recognized over the requisite service period. The Statement was applied by CIB Marine prospectively as of January 1, 2006 and is not expected to result in a significant adjustment to the consolidated financial statements. There were no options granted during the first six months of 2005.

Had compensation expense for these plans been determined based on the fair value method at the grant dates for awards under those plans consistent with the methodology in SFAS No. 123, CIB Marine's forma net loss per share would have been the pro forma amounts indicated below:

		Quarter Ended June 30,		Six Months Ended June 30,	
		2005	2004	2005	2004
		(Dollars in thousands, except per share data)			
Net loss	As reported	$ (2,486)	$(15,865)	$ (7,679)	$(27,660)
	Assumed compensation cost, net of tax (1)	(146)	(201)	(327)	(521)
	Pro forma	$ (2,632)	$(16,066)	$ (8,006)	$(28,181)
Basic loss per share	As reported	$ (0.14)	$ (0.87)	$ (0.42)	$ (1.52)
	Pro forma	(0.14)	(0.88)	(0.44)	(1.54)
Diluted loss per share	As reported	(0.14)	(0.87)	(0.42)	(1.52)
	Pro forma	(0.14)	(0.88)	(0.44)	(1.54)

(1) Assumed compensation costs are not net of tax for 2005 and 2004. Due to substantial losses incurred in 2005 and 2004, tax benefits for 2004 and later years may not be realized. Also, CIB Marine did not have the ability to carry back losses from 2005 and 2004 to previous years because the 2003 carrybacks covered all available taxable income for these years.

Fair value has been estimated using the minimum value method as defined in SFAS 123. Key assumptions used were zero percent volatility, zero percent dividend yield, expected lives of ten years and risk-free interest rates. There were no options granted in 2003, 2004 or during the first six months of 2005. Because the options vest over a five-year period, the pro forma disclosures are not necessarily representative of the effects on reported net income for future years.

Under APB 25, stock based compensation expense includes the excess, if any, of the market price of the stock at grant date or other measurement date, over the exercise price. This expense is recognized over the vesting period of the options. If stock options had an exercise price less than the market price at the measurement date, compensation expense associated with those options would be included in salaries and employee benefits expense with a corresponding increase in capital surplus.

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CIB Marine records amounts received upon the exercise of options by crediting common stock and capital surplus. Income tax benefits from the exercise of stock options result in a decrease in current income taxes payable and, to the extent not previously recognized as a reduction in income tax expense, result in an additional increase in capital surplus.

Note 3 — Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in thousands)		
June 30, 2005				
U.S. government agencies	$201,636	$ 180	$ 794	$201,022
Obligations of states and political subdivisions	10,515	376	5	10,886
Other notes and bonds	350	—	—	350
Asset-backed securities	53,165	128	—	53,293
Corporate commercial paper	12,135	27	—	12,162
Mortgage-backed securities	210,296	430	1,262	209,464
Total securities available for sale	488,097	1,141	2,061	487,177
Federal Home Loan Bank and Federal Reserve Bank stock at cost	26,130	—	—	26,130
	$514,227	$ 1,141	$ 2,061	$513,307
December 31, 2004				
U.S. government agencies	$194,164	$ 36	$ 560	$193,640
Obligations of states and political subdivisions	15,738	793	1	16,530
Other notes and bonds	350	—	—	350
Corporate commercial paper	12,658	15	—	12,673
Mortgage-backed securities	143,005	464	1,389	142,080
Total securities available for sale	365,915	1,308	1,950	365,273
Federal Home Loan Bank and Federal Reserve Bank stock at cost	13,751	—	—	13,751
	$379,666	$ 1,308	$ 1,950	$379,024

Securities with a carrying value and fair value of $154.1 million and $148.3 million at June 30, 2005 and December 31, 2004, respectively, were pledged to secure public deposits, Federal Home Loan Bank advances, repurchase agreements, and other purposes as required, and beginning in the first quarter of 2004 for federal funds purchased and borrowings from the federal discount window.

During the first half of 2005, CIB Marine recognized a $1.2 million other-than-temporary impairment loss on certain of its available for sale securities. This impairment loss is included in impairment loss on investment securities on the consolidated statement of operations.

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Note 4 — Loans

The components of loans are as follows:

	June 30, 2005 Amount	June 30, 2005 % of Total	December 31, 2004 Amount	December 31, 2004 % of Total
	(Dollars in thousands)			
Commercial	$110,424	19.1%	$193,574	25.9%
Commercial real estate	345,221	59.6	404,503	54.1
Commercial real estate construction	91,457	15.8	109,676	14.7
Residential real estate	22,792	3.9	31,027	4.1
Home equity	7,247	1.3	7,701	1.0
Consumer	2,675	0.5	2,124	0.3
Receivables from sale of stock	(946)	(0.2)	(946)	(0.1)
Gross loans	578,870	100.0%	747,659	100.0%
Deferred loan fees	(944)		(1,044)	
Total loans	577,926		746,615	
Allowance for loan losses	(24,470)		(29,551)	
Loans, net	$553,456		$717,064	

Certain directors and principal officers of CIB Marine and its subsidiaries, and companies with which they are affiliated, are customers of and have banking transactions with the subsidiary banks in the ordinary course of business. Such loans totaled $8.3 million and $9.9 million at June 30, 2005 and December 31, 2004, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $3.2 million and $3.4 million as of June 30, 2005 and December 31, 2004, respectively.

At June 30, 2005 and December 31, 2004, CIB Marine had $1.8 million and $2.8 million, respectively, in outstanding principal balances on loans secured, or partially secured, by CIB Marine stock. Specific reserves on these loans were $0.06 million and $0.3 million at June 30, 2005 and December 31, 2004, respectively. Loans made specifically to enable the borrower to purchase CIB Marine stock, and not adequately secured by collateral other than the stock, and which have been classified as receivables from sale of stock and recorded as contra-equity, have not been included in this balance.

The following table lists information on nonperforming and certain past due loans:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Nonaccrual loans	$35,007	$ 54,327
Restructured loans	1,512	1,536
Loans 90 days or more past due and still accruing	8,820	6,911

Information on impaired loans is as follows:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Impaired loans without a specific allowance	$11,470	$ 16,535
Impaired loans with a specific allowance	17,989	34,431
Total impaired loans	$29,459	$ 50,966
Specific allowance related to impaired loans	$ 7,321	$ 10,282

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Changes in the allowance for loan losses were as follows:

	Quarter Ended June 30, 2005	2004	Six Months Ended June 30, 2005	2004
	(Dollars in thousands)			
Balance at beginning of period	$28,300	115,397	29,551	$109,872
Charge-offs	(2,524)	(18,265)	(3,444)	(26,229)
Recoveries	610	589	1,406	1,024
Net loan charge-offs	(1,914)	(17,676)	(2,038)	(25,205)
Allowance related to discontinued operations	—	(51,630)	—	(51,630)
Transfer from accrual for unfunded standby letters of credit for funded standby letters of credit	—	—	—	5,000
Allowance sold	—	(712)	—	(712)
Provision for loan losses — discontinued operations	—	54	—	457
Provision for loan losses — continuing operations	(1,916)	11,492	(3,043)	19,143
Balance at end of period	$24,470	$ 56,925	$24,470	$ 56,925
Allowance for loan losses as a percentage of loans	4.23%	5.53%	4.23%	5.53%

Note 5 — Goodwill

At both June 30, 2005 and December 31, 2004, CIB Marine had $1.0 million of goodwill. The goodwill is not subject to amortization, but is subject to an annual impairment assessment and interim testing if facts and circumstances suggest it may be impaired.

Note 6 — Companies Held For Disposal and Discontinued Operations

Assets and liabilities of companies held for disposal, as shown on the consolidated balance sheets, are comprised of CIB Construction, MICR Inc., and MSI at both June 30, 2005 and December 31, 2004.

Loss or income from discontinued operations, as shown on the consolidated statement of operations, is comprised of MICR, CIB Construction, and MSI for the quarter and six months ended June 30, 2005, and MICR, CIB Construction, MSI, CIB — Chicago and Commercial Finance for the quarter and six months ended June 30, 2004. CIB — Chicago and Commercial Finance were sold during 2004.

Banking regulations limit the holding period for assets not considered to be permissible banking activities and which have been acquired in satisfaction of debt previously contracted to five years, unless extended. Both MICR and CIB Construction are subject to this restriction.

Reconciliation of assets/liabilities of companies held for disposal

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets of companies held for disposal:		
CIB Construction	$ 9,807	$ 13,697
MICR	2,521	2,706
MSI	821	1,429
Other (1)	(930)	(2,967)
Total assets of companies held for disposal	$ 12,219	$ 14,865
Liabilities of companies held for disposal:		
CIB Construction	$ 6,279	$ 10,222
MICR	972	864
MSI	1,733	2,360
Other (1)	1,023	(3,309)
Total liabilities of companies held for disposal	$ 10,007	$ 10,137

(1) Includes mortgage banking assets/liabilities held by affiliates, tax liability on subsidiary sold in 2004 and elimination of intercompany transactions between subsidiaries and affiliates.

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Reconciliation of (loss) income from discontinued operations for the quarters and six months ended June 30, 2005 and 2004:

	Pretax income before gain/(loss) on sale of assets and other income (expense)	Gain on sale of discontinued operations	Income tax expense (benefit)	Other income (expense) (1)	Net income/(loss)
	(Dollars in thousands)				
Quarter Ended June 30, 2005					
CIB Construction	$ 2,469	$ —	$ 109	$ —	$ 2,360
MICR	335	—	117	—	218
MSI	(182)	—	(64)	123	5
Total	$ 2,622	$ —	$ 162	$ 123	$ 2,583
Six Months Ended June 30, 2005					
CIB Construction	$ 2,758	$ —	$ (50)	$ —	$ 2,808
MICR	546	—	191	—	355
MSI	35	—	16	134	153
Other (2)	—	—	1,900	—	(1,900)
Total	$ 3,339	$ —	$ 2,057	$ 134	$ 1,416
Quarter Ended June 30, 2004					
CIB Construction	$ (12)	$ —	$ 57	$ (1)	$ (70)
MICR	289	—	107	—	182
MSI	(1,139)	—	(76)	684	(379)
CIB — Chicago	(4,365)	—	1,066	1,317	(4,114)
Commercial Finance	16	235	(24)	65	340
Total	$ (5,211)	$ 235	$ 1,130	$ 2,065	$ (4,041)
Six Months Ended June 30, 2004					
CIB Construction	$ (112)	$ —	$ 936	$ 98	$ (950)
MICR	(1,371)	—	185	—	(1,556)
MSI	(3,216)	—	(258)	306	(2,652)
CIB — Chicago	(3,981)	—	1,357	3,013	(2,325)
Commercial Finance	(205)	235	(29)	141	200
Total	$ (8,885)	$ 235	$ 2,191	$ 3,558	$ (7,283)

(1) Includes intercompany transactions, impairment losses recorded by the parent and mortgage banking income/expense recognized by affiliates.

(2) Relates to subsidiary sold in 2004

CIB Construction (includes Canron)

CIB Construction, a wholly-owned subsidiary of CIB Marine, acquired 84% of the outstanding stock of Canron through loan collection activities in 2002. At the time Canron was acquired it was CIB Marine's intention to operate the business with long-range plans to sell the business within the five year holding period permitted by regulators. During the third quarter of 2003, the Boards of Directors of CIB Marine and of Canron authorized management to cease operating Canron and commence a wind down of its affairs and a voluntary liquidation of its assets. The gross assets and liabilities of CIB Construction and its subsidiaries are reported separately on the consolidated balance sheets at their estimated liquidation values less costs to sell. Intercompany loan and cash balances and interest income and expense between consolidated CIB Construction and CIB Marine have been eliminated from the totals shown on the consolidated financial statements. During the first half of 2005, CIB Marine recognized a $2.7 million recovery of impairment losses recognized in prior periods. The net loss associated with CIB Construction is included in discontinued operations for all periods presented.

In April 2005, Canron sold its remaining facility in Rexdale, Ontario for $8.2 million, and a portion of the proceeds, $2.6 million, were used to pay off the remaining balance of its debt to CIB Marine.

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In conjunction with the liquidation, Canron, a subsidiary of CIB Construction, established an accrual for employee severance and retention costs. Under Canadian law, employees are generally entitled to one week's salary for every year of service with the company, up to a maximum of twenty-six years. At June 30, 2005, Canron had an accrued severance liability of $0.1 million.

The following table summarizes the composition of CIB Construction's balance sheets. The balance sheets reflect estimated liquidation values less costs to sell:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at CIB Marine	$ 876	$ 881
Accounts receivable	1,606	2,194
Other current assets	7,325	3,547
Current assets	9,807	6,622
Property and equipment, net	—	7,075
Total assets	$ 9,807	$ 13,697
Liabilities and stockholder's equity:		
Current portion of loans payable to CIB Marine	$ —	$ 2,700
Income tax payable	2,006	2,311
Other liabilities	4,273	5,211
Current liabilities	6,279	10,222
Stockholder's equity	3,528	3,475
Total liabilities and stockholder's equity	$ 9,807	$ 13,697

MICR

In 2000, CIB Marine acquired and/or assumed through MICR, a wholly-owned subsidiary of CIB — Chicago, the business and certain assets and liabilities of a manufacturer of payment processing systems. The gross assets and liabilities of MICR are reported on the consolidated balance sheet as assets or liabilities of companies held for disposal. During the six months ended June 30, 2005, MICR paid CIB Marine $0.7 million in dividends. During 2004, an impairment loss of $1.9 million related to goodwill on MICR was recognized and included within discontinued operations. No impairment loss was recognized in 2005.

The following table summarizes the composition of MICR's balance sheet:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at non-affiliates	$ 153	$ 288
Accounts receivable	440	765
Inventory	1,109	1,121
Other current assets	293	28
Property and equipment, net	291	269
Goodwill, net	235	235
Total assets	$ 2,521	$ 2,706
Liabilities and stockholder's equity:		
Liabilities	$ 972	$ 864
Stockholder's equity	1,549	1,842
Total liabilities and stockholder's equity	$ 2,521	$ 2,706

MSI

In September 1995, CIB Marine acquired Mortgage Services of Illinois, Inc., a mortgage origination and mortgage brokerage services company. In 1998, CIB Marine changed the name of this subsidiary to Mortgage Services, Inc ("MSI"). MSI sold substantially all mortgage loans in the secondary market with servicing rights released. Due to the underperformance of this subsidiary, CIB Marine sold to an unrelated party substantially all of the assets and operations of MSI during the third quarter of 2004. CIB Marine is in the process of winding down the remaining affairs of this company and has incurred certain liabilities with respect to the operations of the mortgage company. These liabilities include repurchase obligations relative to certain mortgage loans as a result of borrower fraud and/or documentation issues, and potential tax liabilities.

The following table summarizes the composition of MSI's balance sheet:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at CIB Marine	$ 53	$ 341
Loans held for sale	—	53
Net loans	19	—
Property and equipment, net	—	35
Accrued income tax receivable	605	621
Other assets	144	379
Total assets	$ 821	$ 1,429
Liabilities and stockholder's equity:		
Loans payable to CIB Marine	$ 569	$ 303
Other liabilities	1,164	2,057
Total liabilities	1,733	2,360
Stockholder's equity	(912)	(931)
Total liabilities and stockholder's equity	$ 821	$ 1,429

During the first quarter of 2004, based on the expected fair value of the subsidiary, CIB Marine recognized a $1.0 million impairment loss related to the value of customer base intangibles and additional contingent consideration due under the original purchase agreement. The $1.0 million impairment loss is included in discontinued operations on CIB Marine's consolidated statements of operations. There were no impairment losses recognized during the first half of 2005.

Commercial Finance

In August 2002, CIB Marine acquired certain of the assets of a receivables factoring business through Commercial Finance, an Illinois limited liability company and a wholly-owned subsidiary of CIB — Chicago. The assets were acquired from a borrower who was in default of its obligations to CIB Marine and other lenders. Commercial Finance provided the factoring of receivables and other asset-based lending products to borrowers. In June 2004, CIB Marine sold substantially all of the business assets and the business of Commercial Finance to an unrelated party and the company was fully dissolved in November 2004. Commercial Finance's operating results for the quarter and six months ended June 30, 2004 are presented in discontinued operations in CIB Marine's consolidated statement of operations.

Hillside Investors (includes CIB — Chicago)

In November 2004, CIB Marine sold CIB — Chicago to an unrelated banking organization. The final sale price was $67.4 million in cash, of which $5.4 million was used by CIB Marine to repay a short-term loan from the purchaser. The purpose of the loan was to fund the purchase by CIB Marine of CIB — Chicago's interest in MICR, CIB Construction, including Canron, and the loans and related claims against the borrowers in a Chicago condominium development loan. CIB — Chicago's operating results for the three and six months ended June 30, 2004 are presented in discontinued operations in CIB Marine's consolidated statement of operations.

Note 7 — Assets and Deposits of Branches Held For Sale

At June 30, 2005, one of CIB Marine's subsidiary banks had for sale the deposits, property and equipment of one of its branches located in Sebring, Florida. At June 30, 2005, the total deposits of this branch were $7.7 million and the total property and equipment net of accumulated depreciation was $0.3 million. These assets and liabilities are included in assets and deposits held for sale as of June 30, 2005.

Note 8 — Other Assets

The following table summarizes the composition of CIB Marine's other assets:

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	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Prepaid expenses	$ 1,054	$ 1,266
Accounts receivable	800	1,395
Trust preferred securities underwriting fee, net of amortization	1,418	1,445
Investment in trust common securities	2,566	2,481
Other investments	3,040	3,257
Income tax receivable	1,882	7,945
Other	70	90
	$ 10,830	$ 17,879

The major components of other investments are as follows:

- Investments in limited partnership interests in various affordable housing partnerships with a carrying value of $2.0 million and $2.1 million at June 30, 2005 and December 31, 2004, respectively. CIB Marine has engaged in these transactions to provide additional qualified investments under the Community Reinvestment Act and to receive related income tax credits. The partnerships provide affordable housing to low income residents within CIB Marine's markets and other locations.
- Interests in two companies operating as small business investment companies under the Small Business Investment Act of 1958, as amended. CIB Marine committed to a $1.1 million investment in these companies and as of June 30, 2005 has invested $0.9 million. The carrying value of these investments was cost less other-than-temporary impairment, which was estimated to be $0.7 million and $0.8 million at June 30, 2005 and December 31, 2004, respectively. During the first quarter of 2005, CIB Marine recognized an impairment loss of $0.1 million on these investments due to a reduction in CIB Marine's interest in the equity value in one of the two investments. The impairment loss is included within write down and losses on assets.
- Investment in the common and preferred capital of a limited liability corporation engaged in the development of owner-occupied housing in qualified low-income communities. CIB Marine committed to a $1.0 million investment in this company. The carrying value of this investment at both June 30, 2005 and December 31, 2004 was $0.1 million.

Note 9 — Short-term Borrowings

The following table presents information regarding short-term borrowings:

	June 30, 2005		December 31, 2004	
	Balance	Rate	Balance	Rate
	(Dollars in thousands)			
Federal funds purchased and securities sold under repurchase agreements	$ 19,368	3.02%	$ 13,269	1.67%
Treasury, tax, and loan notes	1,435	2.76	5,540	2.03
	$ 20,803	3.00%	$ 18,809	1.78%

At June 30, 2005 CIB Marine was not in compliance with certain asset quality, earnings and capital maintenance debt covenants of certain financial standby letters of credit it participated in with other banks. CIB Marine pledged securities to collateralize its obligation for these participated standby letters of credit and entered into forbearance agreements. The total value of securities pledged to other parties related to those participated standby letters of credit was $4.9 million at June 30, 2005 and $5.0 million at December 31, 2004.

During 2004 and 2005 some of the borrowing sources customarily utilized by CIB Marine were restricted or unavailable due to noncompliance with certain asset quality, earnings, and capital maintenance debt agreements and the inability to provide audited consolidated financial statements. Federal funds borrowings by certain of CIB Marine's subsidiary banks were discontinued or were contingent on subsidiary bank pledges of fixed income investment securities, the FHLB of Chicago restricted lending terms, and derivative counterparties increased collateral requirements. Brokered deposits were restricted by FDIC rules and regulations at subsidiary banks which were defined as less than well capitalized due to either low levels of capital, the issuance of Cease and Desist Orders, or formal written agreements by regulatory agencies. Where eligible, the FDIC granted permissible waivers at the subsidiary banks, making the banks eligible to accept, renew or rollover brokered deposits. During 2004, the credit status of all of CIB Marine's subsidiary banks was reduced. The subsidiary banks were restricted from daylight overdraft and other activity at their respective

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Federal Reserve Banks, and were required to pledge securities in order to have access to the federal discount window. Additionally, pursuant to a Written Agreement between CIB Marine and the Federal Reserve Bank, CIB Marine must obtain Federal Reserve Bank approval before incurring additional borrowings or debt. Pursuant to regulatory agreements consented to by certain CIB Marine bank subsidiaries, the subsidiaries must obtain regulatory approval before paying cash dividends.

Note 10 — Long-term Borrowings

The following table presents information regarding amounts payable to the Federal Home Loan Bank of Chicago that are included in the consolidated balance sheets as long-term borrowings:

	June 30, 2005		December 31, 2004		Scheduled	Callable at
	Balance	Rate	Balance	Rate	Maturity	Par After
	(Dollars in thousands)					
	$ 3,250	4.95%	$ 3,250	4.95%	1/16/08	1/16/01
	2,000	4.95	2,000	4.95	1/16/08	1/16/01
	2,000	5.09	2,000	5.09	2/20/08	2/20/01
Total	$ 7,250	4.99%	$ 7,250	4.99%		

CIB Marine is required to maintain qualifying collateral as security for FHLB notes. The debt to collateral ratio is dependent upon the type of collateral pledged. At June 30, 2005 and December 31, 2004, the assets pledged as security for CIB Marine's FHLB borrowings had a collateral value of $21.4 million and $32.1 million, respectively. These assets consisted of securities with a market value of $23.2 million and $34.7 million at June 30, 2005 and December 31, 2004, respectively.

Note 11 — Other Liabilities

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Accounts payable	$ 934	$ 344
Accrual for unfunded commitments and standby letters of credit	725	725
Accrued real estate taxes	160	190
Accrued compensation and employee benefits	1,202	1,169
Accrued professional fees	1,414	1,546
Accrued other expenses	498	1,138
Other liabilities	616	719
	$ 5,549	$ 5,831

Note 12 — Stockholders' Equity

Receivables from Sale of Stock

Loans not sufficiently collateralized by assets other than CIB Marine stock and made by CIB Marine's subsidiary banks to borrowers who used the proceeds to acquire CIB Marine stock are classified as receivables from sale of stock and are accounted for as a reduction of stockholders' equity until such loans have been repaid or are charged-off. Such loans outstanding at both June 30, 2005 and December 31, 2004 totaled $0.9 million. Interest earned on these loans was $0.02 million and $0.03 million, respectively, for the quarter and six months ended June 30, 2005 and is included in interest and dividend income — loans.

Treasury Stock

Certain of CIB Marine's subsidiary banks have acquired shares of CIB Marine stock through collection efforts when the borrowers defaulted on their loans. These shares are included in treasury stock at the lower of the loan balance or the estimated fair market value of CIB Marine's stock at time of acquisition. Any loan balance in excess of the estimated fair market value of the stock and other collateral received was charged to the allowance for loan losses.

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Regulatory Capital

CIB Marine and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Pursuant to federal holding company and bank regulations, CIB Marine and each bank subsidiary is assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated in accordance with specific instructions included in the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the bank subsidiaries must meet specific capital guidelines that involve quantitative measures of the bank's assets and certain off-balance sheet items as calculated under regulatory accounting practices. The banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. To be categorized as well capitalized, pursuant to FDIC guidelines in 12 C.F.R. Part 325, the bank subsidiaries must maintain total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios of 10.0%, 6.0% and 5.0%, respectively.

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

At June 30, 2005, pursuant to FDIC regulations in 12 C.F.R. Part 325, Marine FSB, Marine — Wisconsin and CIB — Indiana were classified as well capitalized and Central Illinois Bank and Citrus Bank were each categorized as adequately capitalized. While those banks classified as adequately capitalized met the capital ratio criteria of a well capitalized bank at June 30, 2005, they were each subject to a cease and desist order or written agreement as of that date, and pursuant to the FDIC regulations, a bank that is subject to any written agreement or order to meet and maintain a specific capital level for any capital measure cannot be classified as well capitalized.

In the second quarter of 2004, CIB Marine entered into a Written Agreement ("Agreement") with the Federal Reserve Bank and, Central Illinois Bank, Marine — Wisconsin and CIB — Indiana each consented to the issuance of Cease and Desist Orders ("Orders") with banking regulatory authorities. Additionally, in the third quarter of 2004, Citrus Bank entered into a Written Agreement ("Agreement") with the Office of the Comptroller of the Currency. Among other items, the Orders and Agreements restrict the payment of cash dividends without prior written consent from the regulators and require the banks to maintain a Tier 1 leverage capital level equal to or exceeding 8% of the bank's total assets. The Agreement with the OCC also requires Citrus Bank to maintain a total capital ratio of not less than 14%. In April 2005, the Cease and Desist Orders at Marine — Wisconsin and CIB — Indiana were each terminated as a result of improvements at such banks and replaced with Memoranda of Understanding ("Memoranda"), which were entered into in March 2005. Pursuant to the Memoranda, the banks agreed to maintain Tier 1 capital equal to or exceeding 8% of the total assets as defined in Part 325 of the FDIC Rules and Regulations, correct loan administration deficiencies, reduce concentrations and problem credits and not declare or pay cash dividends without regulatory approval. These restrictions are in force until such Orders, Memoranda and Agreements are terminated. Failure to comply with the Orders, Memoranda or Agreements could have a material adverse effect on CIB Marine and its operations. As of June 30, 2005, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Orders, Memoranda and Agreements.

Note 13 — Loss Per Share Computations

The following provides a reconciliation of basic and diluted earnings per share from continuing operations:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands, except share and per share data)			
Loss from continuing operations	$ (5,069)	$ (11,824)	$ (9,095)	$ (20,377)
Weighted average shares outstanding:				
Basic	18,333,779	18,259,831	18,333,779	18,259,831
Effect of dilutive stock options outstanding	—	—	—	—
Diluted	18,333,779	18,259,831	18,333,779	18,259,831
Per share loss:				
Basic	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Effect of dilutive stock options outstanding	—	—	—	—
Diluted	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)

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Note 14 — Subsequent Events

Charter Consolidation

In March 2006 and August 2006, CIB Marine merged Marine FSB and CIB — Indiana, respectively, into Marine — Wisconsin. CIB Marine may also consider the consolidation of additional charters in the future as part of its strategy to become more efficient.

Sale and Wind Down of Nonbank Subsidiaries

CIB Construction/Canron

Canron is continuing to collect both on and off-balance sheet receivables and settle and resolve payables and claims through the voluntary liquidation process. In August 2005, Canron authorized and began liquidation distributions to its shareholders. During the last half of 2005, Canron paid $2.1 million in capital distributions to its parent, CIB Construction, and CIB Construction paid dividends totaling $2.6 million to CIB Marine which CIB Marine recorded as a reduction of its investment in CIB Construction. In 2006, Canron paid $1.0 million in dividends to CIB Construction, and CIB Construction paid $1.6 million in dividends to CIB Marine. In the first quarter of 2007, Canron paid $0.9 million in dividends to CIB Construction and CIB Construction paid $1.0 million in dividends to CIB Marine. As of March 31, 2007, CIB Marine's net investment in CIB Construction was approximately $(1.2) million.

MICR

In January 2005, CIB Marine retained the services of an investment broker to assist in the marketing and sale of MICR. Substantially all the assets and operations of MICR were sold in the fourth quarter of 2005. The sale resulted in a pretax gain of $0.2 million.

Regulatory Orders and Agreements

In April 2005, Central Illinois Bank, Marine — Wisconsin and CIB — Indiana entered into Memoranda of Understanding with the FDIC and their state banking regulators as a result of deficiencies related to controls over information technology. These memoranda were terminated in January 2006. In September 2006, the Written Agreement with Citrus Bank was terminated. In January 2007, the Cease and Desist Order at Central Illinois Bank was terminated and replaced with a Memorandum of Understanding.

Liquidity

During 2005, 2006 and into 2007, some of the borrowing sources customarily utilized by CIB Marine continued to be contingent on subsidiary bank pledges of fixed income investment securities, including availability of federal funds purchased with correspondent banks, short-term borrowing availability from the Federal Home Loan Bank of Chicago and borrowing availability at the Federal Reserve Bank's discount window.

In the first quarter of 2007, CIB Marine decided to sell certain securities in its available for sale portfolio. The sale of these securities in 2007 supports CIB Marine's asset-liability strategy of selling lower yielding assets and purchasing higher yielding assets. A portion of the proceeds were used to pay down certain short-term liabilities incurred as a result of the sale of branches and the purchase of a pool of home equity loans in 2007. As a result of the 2007 sale of securities, CIB Marine determined the full value of those certain securities would not be fully recovered and accordingly, recognized an other-than-temporary impairment loss of $2.0 million and $1.3 million on these securities during 2005 and 2006, respectively.

Loan Pool Purchase

CIB Marine has purchased two pools of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation: a $47.8 million pool in June 2006 and a $48.2 million pool in February 2007. The 2006 purchase was funded with $12.0 million in FHLB Chicago borrowings with the remainder coming from cash on hand. The 2007 purchase was funded with cash on hand and $15.0 million in FHLB Chicago borrowings. The June 2006 pool consisted of 989 loans at purchase with a weighted average yield of 9.5%, term to maturity of 17.3 years, loan-to-value ratio of 91%, borrower debt service-to-income ratios of 39% and FICO score of 713. The February 2007 pool included at purchase 965 loans with a weighted average yield of 9.98%, term to maturity of 17.5 years, loan-to-value ratio of 94%, borrower debt service-to-income ratios of 40% and FICO score of 709. The majority of the loans in the purchased pools are not considered to be loans to subprime borrowers. CIB Marine hired an outside consulting firm with experience in home equity loan pool purchases to assist it in selecting the selling company and in the due diligence process performed on a sample of the purchased loans. CIB Marine continues to look at alternative investments including possible further loan purchases in an effort to increase both the balances of loans outstanding and the yield on its interest-earning assets.

Cost Controls and Reduction in Force Program

During 2005 and 2006 and the first quarter of 2007, CIB Marine continued its overall cost savings program which included a reduction in force program and expense controls. Eligible employees impacted by the reduction in force program were paid severance using a consistent formula based upon employee status and years of service. Under the program, CIB Marine reduced its work force during 2006 and the first quarter of 2007 by 18 full-time equivalent employees with an annual base pay of $0.8 million and incurred approximately $0.2 million in severance expenses. The total number of full-time equivalent employees of companies included in continuing operations as of December 31, 2005 and 2006 and March 31, 2007 were 359, 301 and 292, respectively.

Branch Activities

2005 — In the fourth quarter of 2005, after each of CIB Marine's subsidiary banks performed an evaluation of the effectiveness of their respective branch networks, three branches were closed, one was sold and several others were actively solicited for sale. Central Illinois Bank closed a branch in Peoria, Illinois, CIB — Indiana closed a branch in Indianapolis, Indiana, and Citrus Bank closed a branch on Biscayne Boulevard in Miami, Florida. The deposits at these branches as of December 31, 2004 were $5.8 million, $6.9 million and $1.8 million, respectively. Citrus Bank also sold a branch in Sebring, Florida which held $11.0 million in deposits as of December 31, 2004. The net pretax income effects of these activities was a $0.1 million charge to expense as a result of expenses related to the two branch closings of $0.4 million offset by a $0.3 million gain on the branch sale. At December 31, 2005, CIB Marine had 37 branches holding $0.9 billion in deposits.

2006 — Marine — Wisconsin sold branches in Grafton, Wisconsin and Omaha, Nebraska and closed its Rockville Rd., Indianapolis, Indiana branch with minimal costs. Also during 2006, Central Illinois Bank sold its Arthur, Lincoln, Rantoul and Springfield, Illinois branches. The net gain on the sale of the six branches was $2.7 million. The total deposits of these sold branches as of December 31, 2005 were $78.8 million. At December 31, 2006, CIB Marine had 30 branches holding $0.8 billion in deposits.

2007 — In February and May 2007, Marine — Wisconsin sold its Cedarburg and Brookfield, Wisconsin branches, resulting in a total net gain on the sales of $1.1 million. The branches had $49.9 million in deposits at the time of sales. During the second quarter of 2007, CIB Marine closed or had filed a regulatory application to close its Henderson, Nevada; Sun City, Arizona; and Indianapolis (Fox Road), Indiana branches. At December 31, 2006, these three branches had total deposits of $44.4 million. Deposits of closed branches are transferred to other CIB Marine branches.

Goodwill

The balance of CIB Marine's goodwill at December 31, 2005 is a result of prior branch acquisitions. As a result of the branch sales during 2006 and the first quarter of 2007, CIB Marine had no goodwill at March 31, 2007.

FDIC Deposit Insurance Premiums

Deposit insurance premiums decreased to $1.1 million in 2006 primarily due to the reduction in the rate assessed Central Illinois Bank as a result of the improvement of the risk classification of the bank.

In October 2006, the FDIC Board of Directors approved a One-Time Assessment Credit. This credit, totaling $0.6 million for CIB Marine's subsidiary banks, will be recorded as a credit against regular FDIC insurance premium expense beginning in January 2007 and continue until the credit is exhausted. Of the $0.6 million, an estimated $0.2 million will be used to offset the FDIC insurance premium during 2007.

Stock Options

As a result of the reduction in force program, resignations and other management and Board of Directors changes, in the last six months of 2005 and during 2006, 103,013 and 332,916 shares, respectively, of previously granted stock options lapsed and/or were surrendered and became available for future grants under CIB Marine's 1999 Stock Option and Incentive Plan. In September and October 2005, a total of 523,750 options were granted to various employees of the company at an exercise price of $4.10 per share. In March 2006, 83,000 options were granted at an exercise price of $4.10 per share, and on November 16, 2006, an additional 400,750 options were granted at an exercise price of $4.10 per share. As of December 31, 2006, there were 1,172,321 options outstanding with a weighted average exercise price of $8.47, and as of March 31, 2007 there were 1,118,089 options outstanding with a weighted average exercise price of $8.38. In May 2007, an additional 74,000 options were granted at an exercise price of $4.10 per share.

Late Filing of Tax Returns

CIB Marine did not file all required federal and state tax returns for calendar years 2004 and 2005 by the required due dates. The 2004 federal return was subsequently filed in February 2007 and the state returns were filed during the second quarter of 2007. Although CIB Marine does not anticipate taxable income during these periods, penalties and interest may still be assessed by the Internal Revenue Service and/or applicable state departments of revenue. Upon conclusion of the audit of the financial statements for 2005 and the filing of the related Form 10-K and Form 10-Qs with the SEC, CIB Marine intends to complete and file the 2005 tax returns.

Foreclosed properties

Foreclosed properties were $2.9 million as of December 31, 2005, but were reduced to $0.1 million by December 31, 2006 and March 31, 2007 as a result of the sales of four properties at a recorded loss of $0.3 million.

FHLB Stock Investment Activity

In 2005, the FHLB Chicago Board disclosed its decision to discontinue redemption of excess, or voluntary, capital stock. Voluntary stock is stock held by members beyond the amount required as a condition of membership or to support advance borrowings. In April 2006, the FHLB Chicago announced plans to facilitate limited stock redemption requests from its members by issuing bonds. During 2006, the FHLB Chicago issued a limited amount of bonds to facilitate voluntary capital stock redemptions and CIB Marine sold back $14.3 million or 55.6% of its holdings. This represented approximately 58.7% of the stock CIB Marine requested to be redeemed at that time. As of both December 31, 2006 and March 31, 2007, CIB Marine had $11.5 million in FHLB Chicago stock, of which $0.6 million was categorized as required. The FHLB Chicago plans to facilitate the redemption of a limited amount of additional voluntary stock again in 2007 and 2008, as necessary to meet member demand.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents CIB Marine's consolidated financial condition as of June 30, 2005 and results of operations for the quarter and six months ended June 30, 2005. This discussion should be read together with the consolidated financial statements and accompanying notes contained in Part I, Item 1 of this report, as well as CIB Marine's Annual Report on Form 10-K for the year ended December 31, 2004.

FORWARD-LOOKING STATEMENTS

CIB Marine has made statements in this quarterly report on Form 10-Q and documents that are incorporated by reference that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. CIB Marine intends these forward-looking statements to be subject to the safe harbor created thereby and is including this statement to avail itself of the safe harbor. Forward-looking statements are identified generally by statements containing words and phrases such as "may," "project," "are confident," "should be," "will be," "predict," "believe," "plan," "expect," "estimate," "anticipate" and similar expressions. These forward-looking statements reflect CIB Marine's current views with respect to future events and financial performance, which are subject to many uncertainties and factors relating to CIB Marine's operations and the business environment, which could change at any time.

There are inherent difficulties in predicting factors that may affect the accuracy of forward-looking statements. These factors include those referenced in Item 1A, Risk Factors of CIB Marine's Annual Report on Form 10-K for the year ended December 31, 2005, and as may be described from time to time in CIB Marine's subsequent SEC filings, and such factors are incorporated herein by reference. See also Item 1 — Legal Proceedings in Part II — Other Information of this Form 10-Q.

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These risks and uncertainties should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. CIB Marine does not assume any obligation to update or revise any forward-looking statements subsequent to the date on which they are made, whether as a result of new information, future events or otherwise.

Results of Operations

Overview

During 2005, CIB Marine continued its focus on improving its credit quality, and its liquidity and capital positions. Total assets declined from $1.4 billion at December 31, 2004 to $1.3 billion at June 30, 2005 primarily due to a decrease in loans. During the second quarter and six months ended June 30, 2005, CIB Marine had a net loss of $2.5 million and $7.7 million, respectively, as compared to a net loss of $15.9 million and $27.7 million during the same respective periods in 2004. Net loss includes the results of continuing operations and discontinued operations. The results from discontinued operations are comprised of impairment losses on assets held for disposal, net gains and losses on sales of assets held for disposal and the operating results of companies held for disposal. Discontinued operations for 2005 includes MICR, MSI and CIB Construction and discontinued operations for 2004 includes MICR, MSI, CIB Construction, CIB — Chicago and Commercial Finance. During 2004, CIB Marine sold CIB — Chicago and Commercial Finance and substantially all the assets and operations of MSI. In 2005, CIB Marine continued its wind down of the remaining business affairs of MSI and CIB Construction, including its subsidiary Canron which is in voluntary liquidation.

CIB Marine's net loss decreased $13.4 million, or 84.3% from a net loss of $15.9 million in the second quarter of 2004 to a $2.5 million net loss in the second quarter of 2005. The decrease in the net loss during the second quarter of 2005 as compared to the second quarter of 2004 was driven by a $6.7 million decrease in loss from continuing operations, which had a net loss of $5.1 million in 2005 as compared to a net loss of $11.8 million in 2004, and a $6.6 million decrease in net loss from discontinued operations.

The $6.7 million decrease in loss from continuing operations for the second quarter of 2005 as compared to the second quarter of 2004 was driven by a $10.6 million decrease in provision for credit losses due to an improvement in the overall quality of the credit portfolio as a result of actions taken by CIB Marine in 2004 and 2005. This amount was partially offset by a $2.5 million decrease in net interest income and a $1.0 million decrease in income tax benefit.

Diluted loss per share decreased $0.73, or 83.9%, from ($0.87) for the second quarter of 2004 to ($0.14) for the second quarter of 2005. The loss on average assets for continuing operations was (1.58%) for the second quarter of 2005, as compared to (3.14%) for the second quarter of 2004. The loss on average equity for continuing operations was (23.76%) for the second quarter of 2005, as compared to (52.53%) for the second quarter of 2004.

CIB Marine's net loss decreased $20.0 million, or 72.2% from a net loss of $27.7 million for the six months ended June 30, 2004 to a net loss of $7.7 million for the six months ended June 30, 2005. The decrease in the net loss was driven by a $11.3 million decrease in loss from continuing operations and a $8.7 million decrease in net loss from discontinued operations for the six months ended June 30, 2005 as compared to the same period of 2004, including a $1.0 million impairment loss on MSI and a $1.9 million impairment loss on MICR.

The $11.3 million decrease in loss from continuing operations for the six months ended June 30, 2005 compared to the six months ended June 30, 2004 was driven by a $19.0 million decrease in provision for credit losses due to an improvement in the overall quality of the credit portfolio, partially offset by a $5.1 million decrease in net interest income and a $2.4 million decrease in income tax benefit.

Diluted loss per share decreased $1.10, or 72.4%, from ($1.52) for the six months ended June 30, 2004 to ($0.42) for the six months ended June 30, 2005. The loss on average assets for continuing operations was (1.39%) for the six months ended June 30, 2005 compared to (2.58%) for the same period of 2004. The loss on average equity for continuing operations was (20.80%) for the six months ended June 30, 2005 compared to (42.047%) for the same period of 2004.

CIB Marine had 41 banking facilities at both June 30, 2005 and December 31, 2004 and 454 full-time equivalent employees at June 30, 2005, as compared 482 at December 31, 2004.

The following table sets forth selected unaudited consolidated financial data. The selected financial data should be read in conjunction with the Unaudited Consolidated Financial Statements, including the related notes.

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Selected Consolidated Financial Data

TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	At or For the Quarter Ended June 30, 2005	At or For the Quarter Ended June 30, 2004	At or For the Six Months Ended June 30, 2005	At or For the Six Months Ended June 30, 2004
	(Dollars in thousands, except share and per share data)			
Selected Statements of Operations Data				
Interest and dividend income	$ 14,675	$ 17,832	$ 30,081	$ 37,701
Interest expense	8,633	9,321	17,016	19,569
Net interest income	6,042	8,511	13,065	18,132
Provision for credit losses	(1,916)	8,670	(3,043)	15,991
Net interest income (loss) after provision for credit losses	7,958	(159)	16,108	2,141
Noninterest income	733	791	1,651	1,599
Noninterest expense	13,922	13,598	27,011	26,660
Loss from continuing operations before income taxes	(5,231)	(12,966)	(9,252)	(22,920)
Income tax benefit	(162)	(1,142)	(157)	(2,543)
Net loss from continuing operations	(5,069)	(11,824)	(9,095)	(20,377)
Discontinued operations:				
Pretax income (loss) from discontinued operations	2,745	(2,911)	3,473	(5,092)
Income tax expense	162	1,130	2,057	2,191
Net income (loss) from discontinued operations	2,583	(4,041)	1,416	(7,283)
Net loss	$ (2,486)	$ (15,865)	$ (7,679)	$ (27,660)
Common Share Data				
Basic loss per share:				
Loss from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Discontinued operations	0.14	(0.22)	0.08	(0.40)
Net loss	$ (0.14)	$ (0.87)	$ (0.42)	$ (1.52)
Diluted loss per share:				
Loss from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Discontinued operations	0.14	(0.22)	0.08	(0.40)
Net loss	$ (0.14)	$ (0.87)	$ (0.42)	$ (1.52)
Dividends	—	—	—	—
Book value per share	$ 4.63	$ 4.50	$ 4.63	$ 4.50
Weighted average shares outstanding-basic	18,333,779	18,259,831	18,333,779	18,259,831
Weighted average shares outstanding-diluted	18,333,779	18,259,831	18,333,779	18,259,831
Financial Condition Data				
Total assets	$ 1,253,130	$ 2,847,923	$ 1,253,130	$ 2,847,923
Loans	577,926	1,877,280	577,926	1,877,280
Allowance for loan losses	(24,470)	(108,555)	(24,470)	(108,555)
Securities	513,307	690,086	513,307	690,086
Deposits (includes deposits of branches held for sale)	1,049,156	2,566,582	1,049,156	2,566,582
Borrowings, including junior subordinated debentures	89,910	157,128	89,910	157,128
Stockholders’ equity	84,935	76,874	84,935	76,874
Financial Ratios and Other Data				
Performance ratios:				
Net interest margin (1)	1.96%	2.27%	2.07%	2.32%
Net interest spread (2)	1.48	2.02	1.61	2.07
Noninterest income to average assets (3)	0.28	0.60	0.30	0.55
Noninterest expense to average assets	4.39	3.32	4.11	3.34
Efficiency ratio (4)	201.56	116.77	179.05	117.78
Loss on average assets (5)	(0.78)	(2.15)	(1.17)	(1.81)
Loss on average equity (6)	(11.65)	(70.48)	(17.56)	(57.07)
Asset quality ratios:				
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	7.85%	10.63%	7.85%	10.63%

Nonperforming assets and loans 90 days or more past due and still accruing to total assets	3.85	7.14	3.85	7.14
Allowance for loan losses to loans	4.23	5.78	4.23	5.78
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	53.97	54.40	53.97	54.40
Net charge-offs annualized to average loans	1.26	3.43	0.63	2.32
Capital ratios:				
Total equity to total assets	6.78%	2.70%	6.78%	2.70%
Total risk-based capital ratio	20.06	7.68	20.06	7.68
Tier 1 risk-based capital ratio	14.68	4.79	14.68	4.79
Leverage capital ratio	8.82	3.49	8.82	3.49
Other data:				
Number of employees (full-time equivalent)(7)	454	819	454	819
Number of banking facilities	41	58	41	58

(1) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets. For 2005 and 2004, CIB Marine does not expect to realize all the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, the 2005 and 2004 interest income on tax-exempt earning assets has not been adjusted to reflect the tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.04% and 2.33% for the quarter and 2.14% and 2.37% for the six months ended June 30, 2005 and 2004, respectively.

(2) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(3) Noninterest income to average assets excludes gains and losses on securities.

(4) The efficiency ratio is noninterest expense divided by the sum of net interest income, on a tax-equivalent basis, plus noninterest income, excluding gains and losses on securities.

(5) Loss on average assets is annualized net loss divided by average total assets.

(6) Loss on average equity is annualized net loss divided by average common equity.

(7) Does not include employees (full-time equivalent) of companies that are not part of banking activities and that were acquired from borrowers who were in default of their obligations to CIB Marine as follows:

	At June 30,	
	2005	2004
MICR	32	35
Canron	2	4
	34	39

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CIB MARINE-CONTINUING OPERATIONS ONLY:

	At or For the Quarter Ended June 30,		At or For the Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands, except share and per share data)			
Selected Statements of Operations Data				
Interest and dividend income	$ 14,675	$ 17,832	$ 30,081	$ 37,701
Interest expense	8,633	9,321	17,016	19,569
Net interest income	6,042	8,511	13,065	18,132
Provision for credit losses	(1,916)	8,670	(3,043)	15,991
Net interest income (loss) after provision for credit losses	7,958	(159)	16,108	2,141
Noninterest income	733	791	1,651	1,599
Noninterest expense	13,922	13,598	27,011	26,660
Loss from continuing operations before income taxes	(5,231)	(12,966)	(9,252)	(22,920)
Income tax benefit	(162)	(1,142)	(157)	(2,543)
Net loss from continuing operations	$ (5,069)	$ (11,824)	$ (9,095)	$ (20,377)
Common Share Data				
Basic loss per share from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Diluted loss per share from continuing operations	$ (0.28)	$ (0.65)	$ (0.50)	$ (1.12)
Dividends	—	—	—	—
Book value per share	$ 4.63	$ 4.50	$ 4.63	$ 4.50
Weighted average shares outstanding-basic	18,333,779	18,259,831	18,333,779	18,259,831
Weighted average shares outstanding-diluted	18,333,779	18,259,831	18,333,779	18,259,831
Financial Condition Data				
Total assets	$ 1,240,911	$ 1,498,490	$ 1,240,911	$ 1,498,490
Loans	577,926	1,030,147	577,926	1,030,147
Allowance for loan losses	(24,470)	(56,925)	(24,470)	(56,925)
Securities	513,307	350,196	513,307	350,196
Deposits	1,041,457	1,360,846	1,041,457	1,360,846
Deposits held for sale	7,699	—	7,699	—
Borrowings, including junior subordinated debentures	89,910	83,329	89,910	83,329
Stockholders' equity	84,935	76,874	84,935	76,874
Financial Ratios and Other Data				
Performance ratios:				
Net interest margin (1)	1.96%	2.27%	2.07%	2.32%
Net interest spread (2)	1.48	1.97	1.61	2.03
Noninterest income to average assets (3)	0.18	0.21	0.23	0.20
Noninterest expense to average assets	4.35	3.61	4.14	3.38
Efficiency ratio (4)	210.24	146.18	185.48	135.12
Loss on average assets (5)	(1.58)	(3.14)	(1.39)	(2.58)
Loss on average equity (6)	(23.76)	(52.53)	(20.80)	(42.04)
Asset quality ratios:				
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	7.85%	8.03%	7.85%	8.03%
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	3.89	5.64	3.89	5.64
Allowance for loan losses to loans	4.23	5.53	4.23	5.53
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	53.97	68.82	53.97	68.82
Net charge-offs annualized to average loans	1.26	2.43	0.63	2.23
Capital ratios:				
Total equity to total assets	6.84%	5.13%	6.84%	5.13%
Total risk-based capital ratio	20.29	13.59	20.29	13.59
Tier 1 risk-based capital ratio	14.86	9.24	14.86	9.24
Leverage capital ratio	8.82	6.62	8.82	6.62
Other data:				
Number of employees (full-time equivalent)	454	536	454	536
Number of banking facilities	41	42	41	42

(1) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets. For 2005 and 2004, CIB Marine does not expect to realize all the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, the 2005 and 2004 interest income on tax-exempt earning assets has not been adjusted to reflect the tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.03% and 2.34% for the quarter and 2.14% and 2.39% for the six months ended June 30, 2005 and 2004, respectively.

(2) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(3) Noninterest income to average assets excludes gains and losses on securities.

(4) The efficiency ratio is noninterest expense divided by the sum of net interest income, on a tax-equivalent basis, plus noninterest income, excluding gains and losses on securities.

(5) Loss on average assets is annualized net loss divided by average total assets.

(6) Loss on average equity is annualized net loss divided by average common equity.

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Net Interest Income

The following table sets forth information regarding average balances, interest income, or interest expense, and the average rates earned or paid for each of CIB Marine's major asset, liability and stockholders' equity categories. For 2005 and 2004, CIB Marine does not expect to realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004. Accordingly, interest income on tax-exempt loans and tax-exempt securities for 2005 and 2004 has not been adjusted to reflect the tax-equivalent basis. See the Income Tax discussion for additional information.

TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Quarter Ended June 30,					
	2005			2004		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets						
Securities:						
Taxable	$ 461,062	$ 3,917	3.40%	$ 666,326	$ 3,582	2.15%
Tax-exempt (1)	13,953	171	4.90	47,597	450	3.78
Total securities	475,015	4,088	3.44	713,923	4,032	2.26
Loans (2)(3):						
Commercial	120,985	1,665	5.52	604,653	7,565	5.03
Commercial real estate	465,378	7,382	6.36	1,427,810	20,395	5.75
Consumer	23,053	362	6.30	40,217	556	5.56
Total loans	609,416	9,409	6.19	2,072,680	28,516	5.53
Federal funds sold	152,819	1,177	3.09	92,192	231	1.01
Loans held for sale	469	17	15.39	52,839	809	6.16
Total interest-earning assets	1,237,719	14,691	4.76	2,931,634	33,588	4.60
Noninterest-earning assets						
Cash and due from banks	28,652			48,476		
Premises and equipment	15,898			28,649		
Allowance for loan losses	(27,333)			(111,790)		
Receivables from sale of stock	(946)			(4,453)		
Accrued interest receivable and other assets	29,852			73,997		
Total noninterest-earning assets	46,123			34,879		
Total assets	$1,283,842			$2,966,513		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand deposits	$ 56,332	$ 164	1.17%	$ 89,611	$ 251	1.13%
Money market	215,081	1,275	2.38	362,438	1,233	1.37
Other savings deposits	37,599	108	1.15	212,121	715	1.36
Time deposits (4)	664,735	5,255	3.17	1,817,464	12,725	2.82
Total interest-bearing deposits	973,747	6,802	2.80	2,481,634	14,924	2.42
Borrowings — short-term	15,203	94	2.48	67,350	500	2.99
Borrowings — long-term (4)	7,250	91	5.03	40,040	200	2.01
Junior subordinated debentures	61,857	1,648	10.66	61,857	1,401	9.06
Total borrowed funds	84,310	1,833	8.70	169,247	2,101	4.97
Total interest-bearing liabilities	1,058,057	8,635	3.28	2,650,881	17,025	2.58
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	114,007			193,711		
Accrued interest and other liabilities	26,198			31,386		
Total noninterest-bearing						

liabilities	140,205			225,097		
Total liabilities	1,198,262			2,875,978		
Stockholders' equity	85,580			90,535		
Total liabilities and stockholders' equity	$1,283,842			$2,966,513		
Net interest income and interest rate spread (1)(5)		$ 6,056	1.48%		$ 16,563	2.02%
Net interest-earning assets	$ 179,662			$ 280,753		
Net interest margin (1)(6)			1.96%			2.27%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.17			1.11		

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(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.04% and 2.33%, respectively.

(2) Loan balance totals include nonaccrual loans.

(3) Interest earned on loans includes amortized loan fees of $0.2 million and $0.9 million for the quarters ended June 30, 2005 and 2004, respectively.

(4) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.

(5) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(6) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Six Months Ended June 30,					
	2005			2004		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets						
Securities:						
Taxable	$ 443,821	$ 7,107	3.20%	$ 649,468	$ 7,387	2.27%
Tax-exempt (1)	14,301	348	4.87	48,929	915	3.74
Total securities	458,122	7,455	3.25	698,397	8,302	2.38
Loans (2)(3):						
Commercial	142,205	4,012	5.69	641,983	16,704	5.23
Commercial real estate	485,584	15,590	6.47	1,501,201	43,817	5.87
Consumer	23,661	776	6.61	42,960	1,212	5.67
Total loans	651,450	20,378	6.31	2,186,144	61,733	5.68
Federal funds sold	161,063	2,246	2.81	96,302	486	1.01
Loans held for sale	715	31	8.74	38,200	1,122	5.91
Total interest-earning assets	1,271,350	30,110	4.77	3,019,043	71,643	4.77
Noninterest-earning assets						
Cash and due from banks	29,831			49,858		
Premises and equipment	15,155			28,994		
Allowance for loan losses	(28,558)			(111,358)		
Receivables from the sale of stock	(946)			(4,826)		
Accrued interest receivable and other assets	31,338			88,202		
Total noninterest-earning assets	46,820			50,870		
Total assets	$1,318,170			$3,069,913		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand deposits	$ 59,062	$ 359	1.23%	$ 87,082	$ 472	1.09%
Money market	215,064	2,302	2.16	387,748	2,675	1.39
Other savings deposits	40,019	249	1.25	224,397	1,553	1.39
Time deposits (4)	690,177	10,568	3.09	1,863,606	27,292	2.95
Total interest-bearing deposits	1,004,322	13,478	2.71	2,562,833	31,992	2.51
Borrowings — short-term	14,075	174	2.49	75,521	1,598	4.26
Borrowings — long-term (4)	7,250	182	5.06	42,980	484	2.26
Junior subordinated debentures	61,857	3,209	10.38	61,857	2,764	8.94
Total borrowed funds	83,182	3,565	8.58	180,358	4,846	5.39

Total interest-bearing liabilities	1,087,504	17,043	3.16	2,743,191	36,838	2.70
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	117,749			198,096		
Accrued interest and other liabilities	24,752			31,153		
Total noninterest-bearing liabilities	142,501			229,249		
Total liabilities	1,230,005			2,972,440		
Stockholders' equity	88,165			97,473		
Total liabilities and stockholders' equity	$1,318,170			$3,069,913		
Net interest income and interest rate spread (1)(5)		$ 13,067	1.61%		$ 34,805	2.07%
Net interest-earning assets	$ 183,846			$ 275,852		
Net interest margin (1)(6)			2.07%			2.32%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.17			1.10		

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.14% and 2.37%, respectively.

(2) Loan balance totals include nonaccrual loans.

(3) Interest earned on loans includes amortized loan fees of $0.4 million and $1.9 million for the six months ended June 30, 2005 and 2004, respectively.

(4) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.

(5) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(6) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

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Reconciliation of net interest income – net of discontinued operations

	Quarter ended June 30, 2005	Quarter ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
	(Dollars in thousands)			
Interest income reported in margin table(1)	$ 14,691	$ 33,588	$ 30,110	$ 71,643
Interest income included in discontinued operations	(16)	(15,756)	(29)	(33,942)
Interest income as reported in consolidated statement of operations	14,675	17,832	30,081	37,701
Interest expense reported in margin table	8,635	17,025	17,043	36,838
Interest expense included in discontinued operations	(2)	(7,704)	(27)	(17,269)
Interest expense as reported in consolidated statement of operations	8,633	9,321	17,016	19,569
Net interest income reported in margin table(1)	6,056	16,563	13,067	34,805
Net discontinued operations	(14)	(8,052)	(2)	(16,673)
Net interest income, net of adjustments reported in consolidated statement of operations	$ 6,042	$ 8,511	$ 13,065	$ 18,132

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005, no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis.

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CIB MARINE-CONTINUING OPERATIONS ONLY:

	Quarter Ended June 30,					
	2005			2004		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets						
Securities:						
Taxable	$ 461,062	$ 3,917	3.40%	$ 357,772	$ 2,146	2.40%
Tax-exempt (1)	13,953	171	4.90	20,602	225	4.37
Total securities	475,015	4,088	3.44	378,374	2,371	2.51
Loans (2)(3):						
Commercial	120,985	1,665	5.52	324,110	4,053	5.03
Commercial real estate	465,363	7,380	6.36	735,442	10,697	5.85
Consumer	23,053	362	6.30	32,159	455	5.69
Total loans	609,401	9,407	6.19	1,091,711	15,205	5.60
Federal funds sold	152,819	1,177	3.09	32,632	91	1.12
Loans held for sale	191	3	6.30	5,000	165	13.27
Total interest-earning assets	1,237,426	14,675	4.75	1,507,717	17,832	4.75
Noninterest-earning assets						
Cash and due from banks	28,628			31,393		
Premises and equipment	15,898			15,555		
Allowance for loan losses	(27,333)			(54,492)		
Receivables from sale of stock	(946)			(1,526)		
Accrued interest receivable and other assets	29,548			16,532		
Total noninterest-earning assets	45,795			7,462		
Total assets of continuing operations	1,283,221			1,515,179		
Assets of companies held for disposal	621			1,451,334		
Total assets	$1,283,842			$2,966,513		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand deposits	$ 56,332	$ 164	1.17%	$ 64,207	$ 185	1.16%
Money market	215,081	1,275	2.38	308,417	1,070	1.40
Other savings deposits	37,599	108	1.15	40,053	118	1.18
Time deposits (4)	664,735	5,255	3.17	830,312	6,072	2.94
Total interest-bearing deposits	973,747	6,802	2.80	1,242,989	7,445	2.41
Borrowings — short-term	14,467	92	2.55	30,292	345	4.58
Borrowings — long-term (4)	7,250	91	5.03	10,052	130	5.20
Junior subordinated debentures	61,857	1,648	10.66	61,857	1,401	9.06
Total borrowed funds	83,574	1,831	8.77	102,201	1,876	7.35
Total interest-bearing liabilities	1,057,321	8,633	3.27	1,345,190	9,321	2.78
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	114,007			125,115		
Accrued interest and other liabilities	24,802			5,800		
Total noninterest-bearing liabilities	138,809			130,915		
Total liabilities of continuing operations	1,196,130			1,476,105		

Liabilities of companies held for disposal	2,132			1,399,873		
Total liabilities	1,198,262			2,875,978		
Stockholders' equity	85,580			90,535		
Total liabilities and stockholders' equity	$1,283,842			$2,966,513		
Net interest income and interest rate spread (1)(5)		$ 6,042	1.48%		$ 8,511	1.97%
Net interest-earning assets	$ 180,105			$ 162,527		
Net interest margin (1)(6)			1.96%			2.27%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.17%			1.12%		

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.03% and 2.34%, respectively.

(2) Loan balance totals include nonaccrual loans.

(3) Interest earned on loans includes amortized loan fees of $0.2 million and $0.4 million for the quarters ended June 30, 2005 and 2004, respectively.

(4) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.

(5) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(6) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

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CIB MARINE-CONTINUING OPERATIONS ONLY:

	Six Months Ended June 30, 2005 Average Balance	2005 Interest Earned/Paid	2005 Average Yield/Cost	2004 Average Balance	2004 Interest Earned/Paid	2004 Average Yield/Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets						
Securities:						
Taxable	$ 443,821	$ 7,107	3.20%	$ 356,043	$ 4,389	2.47%
Tax-exempt (1)	14,301	348	4.87	20,870	456	4.37
Total securities	458,122	7,455	3.25	376,913	4,845	2.57
Loans (2)(3):						
Commercial	142,205	4,012	5.69	345,475	8,611	5.01
Commercial real estate	485,576	15,590	6.47	766,184	22,863	6.00
Consumer	23,661	776	6.61	33,585	966	5.78
Total loans	651,442	20,378	6.31	1,145,244	32,440	5.70
Federal funds sold	160,901	2,245	2.81	46,380	249	1.08
Loans held for sale	91	3	6.65	2,528	167	13.28
Total interest-earning assets	1,270,556	30,081	4.76	1,571,065	37,701	4.82
Noninterest-earning assets						
Cash and due from banks	29,865			32,221		
Premises and equipment	15,140			15,768		
Allowance for loan losses	(28,558)			(54,682)		
Receivables from the sale of stock	(946)			(1,899)		
Accrued interest receivable and other assets	31,011			23,518		
Total noninterest-earning assets	46,512			14,926		
Total assets of continuing operations	1,317,068			1,585,991		
Assets of companies held for disposal	1,102			1,483,922		
Total assets	$1,318,170			$3,069,913		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Deposits:						
Interest-bearing demand deposits	$ 59,062	$ 359	1.23%	$ 61,861	$ 341	1.11%
Money market	215,064	2,302	2.16	332,572	2,346	1.42
Other savings deposits	40,019	249	1.25	38,059	227	1.20
Time deposits (4)	690,177	10,569	3.09	871,211	12,922	2.98
Total interest-bearing deposits	1,004,322	13,479	2.71	1,303,703	15,836	2.44
Borrowings — short-term	13,077	146	2.25	29,918	637	4.28
Borrowings — long-term (4)	7,250	182	5.06	12,901	332	5.18
Junior subordinated debentures	61,857	3,209	10.38	61,857	2,764	8.94
Total borrowed funds	82,184	3,537	8.61	104,676	3,733	7.14
Total interest-bearing liabilities	1,086,506	17,016	3.15	1,408,379	19,569	2.79
Noninterest-bearing liabilities						
Noninterest-bearing demand deposits	117,749			125,679		
Accrued interest and other liabilities	23,243			6,793		
Total noninterest-bearing liabilities	140,992			132,472		
Total liabilities of continuing operations	1,227,498			1,540,851		
Liabilities of companies held for						

disposal	2,507			1,431,589		
Total liabilities	1,230,005			2,972,440		
Stockholders’ equity	88,165			97,473		
Total liabilities and stockholders’ equity	$1,318,170			$3,069,913		
Net interest income and interest rate spread (1)(5)		$ 13,065	1.61%		$ 18,132	2.03%
Net interest-earning assets	$ 184,050			$ 162,686		
Net interest margin (1)(6)			2.07%			2.32%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.17%			1.12%		

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis. If 2005 and 2004 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.14% and 2.39%, respectively.

(2) Loan balance totals include nonaccrual loans.

(3) Interest earned on loans includes amortized loan fees of $0.4 million and $0.9 million for the six months ended June 30, 2005 and 2004, respectively.

(4) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.

(5) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(6) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

Net interest income decreased $2.5 million, or 29.0%, from $8.5 million for the second quarter of 2004 to $6.0 million for the second quarter of 2005. Net interest income decreased $5.1 million, or 27.9%, from $18.1 million for the six months ended June 30, 2004 to $13.1 million for the six months ended June 30, 2005. The decrease in net interest income was primarily due to a decrease in average earning assets of $270.3 million and $300.5 million, respectively, for the quarter and six months ended June 30, 2005 as compared to the same periods in 2004.

Total interest income decreased $3.1 million, or 17.7%, from $17.8 million for the second quarter of 2004 to $14.7 million for the second quarter of 2005. The decrease was driven by a $270.3 million, or 17.9%, decrease in average balance of interest-earning assets. The largest decrease was in interest income on loans which declined $5.8 million, or 38.1%, from $15.2 million during the second quarter of 2004 to $9.4 million in the second quarter of 2005. The decrease in interest income on loans was primarily due to a $482.3 million decrease in the average balance of loans outstanding as CIB Marine continued its focus on improving the credit quality of the loan portfolio. This decrease was partially offset by a 59 basis point increase in the average rate on loans resulting from a rising rate environment and fewer loans classified as nonaccrual. The decrease in loan interest income was partially offset by an increase in interest income on securities and federal funds sold. Interest income on securities increased 72.4% during the second quarter of 2005 as compared to the same period in 2004 due to higher average yields and an increase in the average balance as CIB Marine invested excess funds resulting from loans declining at a faster pace than deposits. Additionally, interest income on federal funds sold increased by $1.1 million, or 1,193.4%, due to increased average balances and higher rates.

Total interest income decreased $7.6 million, or 20.2%, from $37.7 million for the six months ended June 30, 2004 to $30.1 million for the six months ended June 30, 2005. The decrease was primarily the result of a 19.1% decrease in average interest-earning assets. Interest income on loans decreased by $12.1 million, or 37.2%, due primarily to lower average loan balances. The decrease in interest income on loans was partially offset by an increase in interest income on securities and federal funds sold due to higher yields in an increasing rate environment and higher average balances. Interest income on securities increased $2.6 million, or 53.9%, and interest income on federal funds sold increased by $2.0 million, or 801.6%.

Total interest expense decreased $0.7 million, or 7.4%, from $9.3 million in the second quarter of 2004 to $8.6 million in the second quarter of 2005. The decline resulted from a $0.6 million decrease in interest expense on deposits driven by a $269.2 million decrease in the average balance of deposits, partially offset by an increase in the average deposit rate due to the rising rate environment. The decrease in average deposits resulted from CIB Marine's liability and pricing management initiatives in response to reduced interest-earning assets.

Total interest expense decreased $2.6 million, or 13.0%, from $19.6 million for the six months ended June 30, 2004 to $17.0 million for the six months ended June 30, 2005. This reduction was primarily the result of the decrease in the average balance of interest-bearing liabilities of $321.9 million. Interest expense on deposits, the largest component of interest-bearing liabilities, decreased by $2.4 million, or 14.9%, due to decreased average balances of $299.4 million for the six months ended June 30, 2005 compared to the same period in 2004.

CIB Marine's net interest rate spread was 1.97% and 1.48% for the second quarter of 2004 and 2005, respectively. The net interest spread decreased 42 basis points from 2.03% for the six months ended June 30, 2004 to 1.61% for the six months ended June 30, 2005. The decrease was primarily due to the change in the mix of average interest-earning assets as higher yielding loans which comprised 72.4% and 72.9% of total average interest-earning assets for the quarter and six months ended June 30, 2004, respectively decreased to 49.2% and 51.3% of average interest-earning assets for the quarter and six months ended June 30, 2005, respectively. During the six months ended June 30, 2005, the investment balances as a percentage of average interest-earning assets increased as loans declined faster than deposits. The net interest margin declined 31 basis points from 2.27% for the second quarter of 2004 to 1.96% for the second quarter of 2005 and decreased by 25 basis points from 2.32% for the six months ended June 30, 2004 to 2.07% for the six months ended June 30, 2005.

The following table presents an analysis of changes in net interest income resulting from changes in average volumes of interest-earning assets and interest-bearing liabilities and average rates earned and paid:

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TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Quarter Ended June 30, 2005 Compared to Quarter Ended June 30, 2004 (2)				Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004 (2)			
	Volume	Rate	Total	% Change	Volume	Rate	Total	% Change
	(Dollars in thousands)							
Interest Income								
Securities — taxable	$ (1,325)	$ 1,660	$ 335	9.35%	$ (2,756)	$ 2,476	$ (280)	(3.79)%
Securities — tax-exempt(1)	(383)	103	(280)	(62.22)	(785)	218	(567)	(61.97)
Total securities	(1,708)	1,763	55	1.36	(3,541)	2,694	(847)	(10.20)
Commercial	(6,574)	674	(5,900)	(77.99)	(14,027)	1,335	(12,692)	(75.98)
Commercial real estate	(15,015)	2,002	(13,013)	(63.80)	(32,309)	4,082	(28,227)	(64.42)
Consumer	(261)	67	(194)	(34.89)	(611)	175	(436)	(35.97)
Total loans (including fees)	(21,850)	2,743	(19,107)	(67.00)	(46,947)	5,592	(41,355)	(66.99)
Federal funds sold	229	717	946	409.52	484	1,276	1,760	362.14
Loans held for sale	(1,283)	492	(791)	(97.78)	(1,454)	363	(1,091)	(97.24)
Total interest income (1)	(24,612)	5,715	(18,897)	(56.26)	(51,458)	9,925	(41,533)	(57.97)
Interest Expense								
Interest-bearing demand deposits	(95)	8	(87)	(34.66)	(167)	54	(113)	(23.94)
Money market	(634)	676	42	3.41	(1,485)	1,112	(373)	(13.94)
Other savings deposits	(513)	(94)	(607)	(84.90)	(1,165)	(139)	(1,304)	(83.97)
Time deposits	(8,915)	1,445	(7,470)	(58.70)	(17,978)	1,254	(16,724)	(61.28)
Total deposits	(10,157)	2,035	(8,122)	(54.42)	(20,795)	2,281	(18,514)	(57.87)
Borrowings — short-term	(333)	(73)	(406)	(81.20)	(944)	(480)	(1,424)	(89.11)
Borrowings — long-term	(251)	142	(109)	(54.50)	(601)	299	(302)	(62.40)
Junior subordinated debentures	—	247	247	17.63	—	444	444	16.06
Total borrowed funds	(584)	316	(268)	(12.76)	(1,545)	263	(1,282)	(26.45)
Total interest expense	(10,741)	2,351	(8,390)	(49.28)	(22,340)	2,544	(19,796)	(53.74)
Net interest income (1)	$(13,871)	$ 3,364	$(10,507)	(63.44)%	$(29,118)	$ 7,381	$(21,737)	(62.46)%

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005, no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis.

(2) Variances which were not specifically attributable to volume or rate have been allocated proportionally between volume and rate using absolute values as a basis for the allocation. Nonaccrual loans were included in the average balances used in determining yields.

CIB MARINE-CONTINUING OPERATIONS ONLY:

	Quarter Ended June 30, 2005 Compared to Quarter Ended June 30, 2004 (2)				Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004 (2)			
	Volume	Rate	Total	% Change	Volume	Rate	Total	% Change
	(Dollars in thousands)							
Interest Income								
Securities — taxable	$ 725	$ 1,046	$ 1,771	(82.53)%	$ 1,228	$ 1,490	$ 2,718	61.93%
Securities — tax-exempt(1)	(79)	24	(55)	(24.44)	(156)	48	(108)	(23.68)
Total securities	646	1,070	1,716	72.37	1,072	1,538	2,610	53.87
Commercial	(2,752)	364	(2,388)	(58.92)	(5,627)	1,028	(4,599)	(53.41)
Commercial real estate	(4,194)	879	(3,315)	(30.99)	(8,944)	1,671	(7,273)	(31.81)
Consumer	(138)	45	(93)	(20.44)	(314)	124	(190)	(19.67)
Total loans (including fees)	(7,084)	1,288	(5,796)	(38.12)	(14,885)	2,823	(12,062)	(37.18)
Federal funds sold	736	350	1,086	1,193.41	1,209	787	1,996	801.61
Loans held for sale	(105)	(57)	(162)	(98.18)	(108)	(56)	(164)	(98.20)

Total interest income (1)	(5,807)	2,651	(3,156)	(17.70)	(12,712)	5,092	(7,620)	(20.21)
Interest Expense								
Interest-bearing demand deposits	(22)	1	(21)	(11.35)	(16)	34	18	5.28
Money market	(392)	597	205	19.16	(1,003)	959	(44)	(1.88)
Other savings deposits	(8)	(2)	(10)	(8.47)	12	10	22	9.69
Time deposits	(1,270)	453	(817)	(13.46)	(2,789)	435	(2,354)	(18.22)
Total deposits	(1,692)	1,049	(643)	(8.64)	(3,796)	1,438	(2,358)	(14.89)
Borrowings — short-term	(137)	(116)	(253)	(73.33)	(267)	(224)	(491)	(77.08)
Borrowings — long-term	(36)	(3)	(39)	(30.00)	(143)	(7)	(150)	(45.18)
Junior subordinated debentures	—	247	247	17.63	—	444	444	16.06
Total borrowed funds	(173)	128	(45)	(2.40)	(410)	213	(197)	(5.28)
Total interest expense	(1,865)	1,177	(688)	(7.38)	(4,206)	1,651	(2,555)	(13.06)
Net interest income (1)	$ (3,942)	$ 1,474	$ (2,468)	(29.00)%	$ (8,506)	$ 3,441	$ (5,065)	(27.94)%

(1) For 2005 and 2004, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses incurred in 2005 and 2004, and as of June 30, 2005, no U.S. federal or state loss carryback potential remains. Accordingly, 2005 and 2004 are not presented on a tax-equivalent basis.

(2) Variances which were not specifically attributable to volume or rate have been allocated proportionally between volume and rate using absolute values as a basis for the allocation. Nonaccrual loans were included in the average balances used in determining yields.

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Provision for Credit Losses

The provision for credit losses represents charges made to earnings in order to maintain an adequate allowance for loan losses and losses on unfunded commitments and standby letters of credit. The provision for credit losses was a negative $1.9 million in the second quarter of 2005, as compared to an $8.7 million expense in the same period of 2004. For the six-month period ended June 30, 2005, the provision for credit losses was a negative $3.0 million, as compared to a $16.0 million expense for the same period of 2004. The decrease in the provision was primarily due to a decline in the amount of loans outstanding at June 30, 2005 as compared to June 30, 2004 and an improvement in the overall quality of the credit portfolio as a result of actions taken by CIB Marine in 2004 and 2005.

Noninterest Income

The following table presents the significant components of noninterest income:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Loan fees	$ 104	$ 218	$ 222	$ 494
Deposit service charges	258	465	568	895
Other service fees	167	36	528	94
Other income	50	72	179	116
Gain on investment securities, net	154	—	154	—
	$ 733	$ 791	$ 1,651	$ 1,599

Noninterest income was $0.7 million and $0.8 million for the second quarter of 2005 and 2004, respectively. Decreased loan fees of $0.1 million and decreased deposit service charges of $0.2 million, resulting from lower loan and deposit volumes in 2005 as compared to 2004, offset the increase in other service fees of $0.1 million and the gain on sale of investments securities of $0.2 million. Noninterest income was $1.7 million and $1.6 million for the six months ended June 30, 2005 and 2004, respectively. Decreased loan fees of $0.3 million and decreased deposit service charges of $0.3 million offset the increase in other service fees of $0.4 million and the gain on sale of investments securities of $0.2 million. The increase in other service fees for the six months ended June 30, 2005 is primarily due to processing services provided by CIB Marine to CIB – Chicago subsequent to the sale of CIB – Chicago.

Noninterest Expense

The following table presents the significant components of noninterest expense:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Compensation and employee benefits	$ 6,603	$ 7,579	$ 13,663	$ 15,625
Equipment	1,019	1,105	1,964	2,255
Occupancy and premises	955	776	1,946	1,623
Professional services	1,281	1,343	1,828	1,920
Impairment loss on investment securities	42	—	1,162	—
Net write downs and losses on assets	1,402	1,001	1,699	1,199
Other expense:				
Payroll and other processing charges	32	30	61	67
Correspondent bank charges	71	108	131	204
Advertising/marketing	284	146	506	329
Communications	358	279	662	603
Supplies and printing	164	85	297	199
Shipping and handling	207	204	371	407
Collection expense	58	9	121	73
FDIC and state assessment	494	421	1,014	875
Recording and filing fees	68	34	96	57
Other expense	884	478	1,490	1,224
Total other expense	2,620	1,794	4,749	4,038
Total Noninterest Expense	$ 13,922	$ 13,598	$ 27,011	$ 26,660

Total noninterest expense increased $0.3 million, or 2.4%, from $13.6 million for the second quarter of 2004 to $13.9 million for the second quarter of 2005. The increase was primarily the result of a $0.4 million increase in write down and losses on assets and a $0.8 million increase in other expense partially offset by a $1.0 million decrease in compensation and employee benefits.

Compensation and employee benefits expense is the largest component of noninterest expense and represented 47.4% of total noninterest expense for the second quarter of 2005 compared to 55.7% for the second quarter of 2004. The decrease in compensation and employee benefit expense is primarily due to an overall cost savings program initiated by CIB Marine in the second half of 2004. The cost savings program included a reduction in force program, restrictions on salaries and hiring, tight expense controls and some executive management salary reductions.

Net write downs and losses on assets for the second quarter of 2005 was $1.4 million as compared to $1.0 million for the second quarter of 2004. The majority of such losses in the second quarter of 2005 related to $1.6 million impairment losses on a limited amount of loans offered for sale as part of a loan work-out strategy offset by a $0.2 million gain on the sale of foreclosed properties. The majority of such losses in the second quarter of 2004 related to a net $0.6 million loss on foreclosed properties and a $0.3 million impairment loss on its investment in shares of common stock of a closely held information company.

Total noninterest expense increased $0.4 million, or 1.3%, from $26.7 million for the six months ended June 30, 2004 to $27.0 million for the six months ended June 30, 2005. The decrease was primarily the result of a $2.0 million decrease in compensation and employee benefits and $0.3 million decrease in equipment expense, partially offset by $1.2 million impairment loss on investment securities, $0.3 million increase in occupancy and premises, $0.5 million increase in write down and losses on assets and $0.7 million increase in other expense.

Compensation and employee benefits expense is the largest component of noninterest expense and represented 50.6% of total noninterest expense for the six months ended June 30, 2005 compared to 58.6% for the six months ended June 30, 2004. The decrease in compensation and employee benefit expense is primarily due to an overall cost savings program initiated by CIB Marine in the second half of 2004. The cost savings program included a reduction in force program, restrictions on salaries and hiring, tight expense controls and some executive management salary reductions.

During 2007, CIB Marine decided to sell certain of its available for sale securities. As a result of this decision, CIB Marine determined it would not be holding these certain securities for a period of time sufficient to recover the carrying value at June 30, 2005. Accordingly, CIB Marine realized a $1.2 million other-than-temporary loss on these certain securities during the first six months of 2005.

Net write downs and losses on assets for the six months ended June 30, 2005 was $1.7 million as compared to $1.2 million for the same period in 2004. The majority of such losses for the six months ended June 30, 2005 related to $1.6 million losses on a limited amount of commercial real estate and commercial construction loans offered for sale in conjunction with a loan work-out strategy and $0.1 million impairment losses relating to its interest in two companies operating as small business investment companies. The majority of such losses for the six months ended June 30, 2004 related to a net $0.6 million loss on foreclosed properties and a $0.6 million loss on the sale and impairment of certain equity investments.

Income Taxes

CIB Marine records a provision for income taxes currently payable, along with a provision for income taxes payable or receivable in the future. Deferred taxes arise from temporary differences between financial statement and income tax reporting of assets and liabilities. CIB Marine is currently under audit by the Illinois Department of Revenue ("IDR") relative to its investment in an Illinois REIT. The REIT was formed as a subsidiary of a former Illinois subsidiary that was sold in 2004. Although CIB Marine believes it has both statutory authority and sound business purposes for establishing the REIT, the IDR audit has caused it to re-examine its Illinois tax exposure. Consequently CIB Marine charged its 2005 discontinued operations in the amount of $1.9 million to recognize its exposure.

Additionally, Canron had a net reduction in prior year exposure items of $0.4 million related to certain individually insignificant items.

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Financial Condition

Overview

During 2005, CIB Marine continued its focus on improving its credit quality. At June 30, 2005, CIB Marine had total assets of $1.3 billion, a $132.8 million or 9.6% decrease, from $1.4 billion at December 31, 2004. The decrease was driven by a declining loan balance which decreased by $163.6 million from $717.1 million at December 31, 2004 to $553.5 million at June 30, 2005 and federal funds sold which decreased $101.9 million. These decreases were partially offset by $134.3 million increase in securities available for sale as CIB Marine invested excess funds resulting from a slower decline in deposits as compared to loans.

Federal Funds Sold

Federal funds sold decreased $101.9 million from $192.2 million at December 31, 2004 to $90.3 million at June 30, 2005. The decrease was mainly due to CIB Marine's strategy of investing in higher yielding, longer term securities during 2005. At December 31, 2004, CIB Marine was invested in more liquid assets to ensure it could address any potential liquidity issues brought on as a result of the deterioration in the credit portfolio during 2003 and 2004.

Loans Held for Sale

Loans held for sale were $15.9 million at June 30, 2005 and were comprised primarily of commercial real estate and commercial construction loans that were transferred from the loan portfolio during the second quarter of 2005 and offered for sale as part of a loan work-out strategy. During the second quarter of 2005, CIB Marine recognized a $1.6 million market value losses related to these loans.

Securities

Total securities at June 30, 2005, were $513.3 million, an increase of $134.3 million, or 35.4%, from $379.0 million at December 31, 2004. The ratio of total securities to total assets was 41.0% at June 30, 2005, as compared to 27.3% at December 31, 2004. The increase was the result of excess investment funds as loan volumes declined at a faster pace than deposits and CIB Marine's movement into longer term investments.

At June 30, 2005, the net unrealized loss on available for sale securities was $0.9 million, compared to a net unrealized loss of $0.6 million at December 31, 2004.

Loans

Loans, net of the allowance for loan losses, were $553.5 million at June 30, 2005, a decrease of $163.6 million, or 22.8%, from December 31, 2004, and represented 44.2% of CIB Marine's total assets at June 30, 2005, and 51.7% at December 31, 2004. The majority of the decrease was in commercial loans and commercial real estate loans which declined $83.2 million and $59.3 million, respectively. The decrease was mainly due to CIB Marine's continued focus during 2005 to improving the asset quality of the portfolio. Additionally, in the second quarter of 2005 CIB Marine transferred to held for sale, as part of a loan work-out strategy, a limited amount of commercial and commercial real estate loans which had a balance of $19.1 million at December 31, 2004.

Credit Concentrations

At June 30, 2005, CIB Marine had no secured borrowing relationships (loans to one borrower or a related group of borrowers) that exceeded 25% of stockholders' equity as compared to one at December 31, 2004. At December 31, 2004, the total outstanding commitments on the one borrowing relationship exceeding 25% of stockholders' equity, including lines of credit not fully drawn, were 33% of equity and 4% of total loans. The principal drawn and outstanding on this one relationship at December 31, 2004 was $30.8 million.

At June 30, 2005, CIB Marine also had credit relationships, including those in assets held for sale, within seven industries or industry groups that exceeded 25% of its stockholders' equity.

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INDUSTRY	June 30, 2005 Outstanding Balance	June 30, 2005 % of Loans	June 30, 2005 % of Stockholders' Equity	December 31, 2004 Outstanding Balance	December 31, 2004 % of Loans	December 31, 2004 % of Stockholders' Equity
	(Dollars in millions)					
Commercial Real Estate Developers	$205.3	36%	242%	$221.8	30%	239%
Residential Real Estate Developers	79.3	14	93	108.8	15	117
Motel and Hotel	53.9	9	64	77.9	10	84
Manufacturing	36.9	6	43	57.3	8	62
Retail Trade	30.4	5	36	37.1	5	40
Health Care Facilities	27.7	5	33	31.4	4	34
Nursing/Convalescent Home	26.5	5	31	29.0	4	31

Allowance for Loan Losses

CIB Marine monitors and maintains an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. At June 30, 2005 the allowance for loan losses was $24.5 million, or 4.2% of total loans, compared to $29.6 million, or 4.0% of total loans at December 31, 2004. The decrease in the allowance was primarily due to a decrease in the amount of loans outstanding and a decrease in the amount of nonperforming loans at June 30, 2005 as compared to December 31, 2004. The allowance is increased by the amount of provision for loan losses and recoveries of previously charged-off loans, and is decreased by the amount of loan charge-offs. Total charge-offs for the second quarter of 2005 were $2.5 million, while recoveries were $0.6 million, as compared to $6.7 million and $0.1 million, respectively, for the same period of 2004. Total charge-offs for the six months ended June 30, 2005 and 2004 were $3.4 million and $13.0 million, respectively, while total recoveries were $1.4 million and $0.3 million, respectively.

The ratio of the allowance to nonaccrual, restructured and 90 days or more past due and still accruing loans was 54.0% at June 30, 2005 compared to 47.1% at December 31, 2004. The increase in this ratio was due to a decline in the amount of loans classified as nonaccrual, restructured or 90 days or more past due and still accruing at June 30, 2005 as compared to December 31, 2004. Although CIB Marine believes that the allowance for loan losses is adequate to absorb probable losses on existing loans that may become uncollectible, there can be no assurance that the allowance will prove sufficient to cover actual loan losses in the future. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the quality of loans and the adequacy of the allowance for loan losses. Such agencies may require CIB Marine to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examination.

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The following table summarizes changes in the allowance for loan losses:

TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Balance at beginning of period	$ 28,300	$ 115,397	$ 29,551	$ 109,872
Loans charged-off				
Commercial	(662)	(17,466)	(963)	(25,300)
Commercial real estate	(1,380)	(795)	(1,944)	(890)
Commercial real estate construction	(479)	—	(479)	—
Residential real estate	—	—	(49)	—
Consumer	(3)	(4)	(9)	(39)
Total loans charged-off	(2,524)	(18,265)	(3,444)	(26,229)
Recoveries of loans charged-off				
Commercial	413	179	1,088	395
Commercial real estate	170	403	286	496
Commercial real estate construction	—	—	—	113
Residential real estate	23	—	23	—
Consumer	4	7	9	20
Total loan recoveries	610	589	1,406	1,024
Net loans charged-off	(1,914)	(17,676)	(2,038)	(25,205)
Transfer to allowance for loans loss for unfunded standby letters of credit for funded standby letters of credit	—	—	—	5,000
Allowance sold (1)	—	(712)	—	(712)
Provision for loan losses:				
Continuing operations	(1,916)	11,492	(3,043)	19,143
Discontinued operations	—	54	—	457
	(1,916)	11,546	(3,043)	19,600
Ending balance	$ 24,470	$ 108,555	$ 24,470	$ 108,555
Total loans	$577,926	$1,877,280	$577,926	$1,877,280
Average total loans	609,416	2,072,680	651,450	2,186,144
Ratios				
Allowance for loan losses to total loans	4.23%	5.78%	4.23%	5.78%
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	53.97	54.40	53.97	54.40
Net charge-offs (recoveries) annualized to average total loans:				
Commercial	0.83	11.50	(0.18)	7.80
Commercial real estate	1.46	0.11	0.89	0.04
Consumer	(0.42)	(0.03)	0.22	0.09
Total loans	1.26	3.43	0.63	2.32
Ratio of recoveries to loans charged-off	24.17	3.22	40.82	3.90

(1) Commercial Finance loan loss allowance. Commercial Finance was sold in the second quarter of 2004.

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CIB MARINE-CONTINUING OPERATIONS ONLY:

	Quarter Ended June 30, 2005	Quarter Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(Dollars in thousands)			
Balance at beginning of period	$ 28,300	$ 55,572	$ 29,551	$ 54,382
Loans charged-off				
Commercial	(662)	(6,578)	(963)	(12,770)
Commercial real estate	(1,380)	(125)	(1,944)	(220)
Commercial real estate construction	(479)	—	(479)	—
Residential real estate	—	—	(49)	—
Consumer	(3)	—	(9)	(4)
Total loans charged-off	(2,524)	(6,703)	(3,444)	(12,994)
Recoveries of loans charged-off				
Commercial	413	49	1,088	152
Commercial real estate	170	54	286	108
Commercial real estate construction	—	—	—	—
Residential real estate	23	—	23	—
Consumer	4	9	9	12
Total loan recoveries	610	112	1,406	272
Net loans charged-off	(1,914)	(6,591)	(2,038)	(12,722)
Transfer to allowance for loans loss for unfunded standby letters of credit for funded standby letters of credit	—	—	—	—
Allowance sold (1)	—	(712)	—	(712)
Provision for loan losses	(1,916)	8,656	(3,043)	15,977
Ending balance	$ 24,470	$ 56,925	$ 24,470	$ 56,925
Total loans	$577,926	$1,030,147	$577,926	$1,030,147
Average total loans	609,401	1,091,711	651,442	1,145,244
Ratios				
Allowance for loan losses to total loans	4.23%	5.53%	4.23%	5.53%
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	53.97	68.82	53.97	68.82
Net charge-offs (recoveries) annualized to average total loans:				
Commercial	0.83	8.10	(0.18)	7.34
Commercial real estate	1.46	0.04	0.89	0.03
Consumer	(0.42)	(0.11)	0.22	(0.05)
Total loans	1.26	2.43	0.63	2.23
Ratio of recoveries to loans charged-off	24.17	1.67	40.82	2.09

(1) Commercial Finance loan loss allowance. Commercial Finance was sold in the second quarter of 2004.

Nonperforming Assets and Loans 90 Days or More Past Due and Still Accruing Interest

The level of nonperforming assets is an important element in assessing CIB Marine's asset quality and the associated risk in its loan portfolio. Nonperforming assets include nonaccrual loans, restructured loans and foreclosed properties. Loans are placed on nonaccrual status when CIB Marine determines that it is probable that the principal and interest amounts will not be collected according to the terms of the loan agreement. A loan is classified as restructured 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 of 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. Foreclosed properties represent properties acquired by CIB Marine as a result of loan defaults by customers.

The following table summarizes the composition of CIB Marine's nonperforming assets, loans 90 days or more past due and still accruing, and related asset quality ratios:

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	June 30, 2005	December 31, 2004	June 30, 2004
		(Dollars in thousands)	
Nonperforming Assets			
Nonaccrual loans:			
Commercial	$ 16,849	$ 25,431	$ 72,017
Commercial real estate (1)	12,342	23,020	97,530
Commercial real estate construction (1)	5,400	5,399	12,480
Residential real estate	416	477	2,176
Home equity	—	—	680
Consumer	—	—	1
Total nonaccrual loans	35,007	54,327	184,884
Foreclosed properties	2,922	3,038	3,690
Restructured loans	1,512	1,536	1,566
	39,441	58,901	190,140
Nonperforming assets included in assets of companies held for disposal:			
Nonaccrual loans	—	—	(106,783)
Foreclosed properties	(100)	(100)	(1,884)
Restructured loans	—	—	(5)
Total nonperforming assets of companies held for disposal	(100)	(100)	(108,672)
Total nonperforming assets, excluding assets of companies held for disposal	$ 39,341	$ 58,801	$ 81,468
Loans 90 Days or More Past Due and Still Accruing			
Commercial	$ 941	$ 1,009	$ 7,372
Commercial real estate	6,708	5,902	1,832
Commercial real estate construction	1,171	—	3,885
Residential real estate	—	—	—
Home equity	—	—	—
Consumer	—	—	—
Total company	$ 8,820	$ 6,911	$ 13,089
Loans 90 day or more past due and still accruing included in assets of companies held for disposal	—	—	(10,040)
Net	$ 8,820	$ 6,911	$ 3,049
Allowance for loan losses:			
Total company	$ 24,470	$ 29,551	$ 108,555
Allowance for loans loss included in assets of companies held for disposal	—	—	(51,630)
Net	$ 24,470	$ 29,551	$ 56,925
Total loans:			
Total company	$ 577,926	$ 746,615	$ 1,877,280
Loans included in assets of companies held for disposal	—	—	(847,133)
Net	$ 577,926	$ 746,615	$ 1,030,147
Total assets:			
Total company	$ 1,253,130	$ 1,385,908	$ 2,847,923
Assets of companies held for disposal	(12,219)	(14,865)	(1,349,433)
Net	$ 1,240,911	$ 1,371,043	$ 1,498,490
Ratios: Total Company-Continuing and Discontinued Operations:			
Nonaccrual loans to total loans	6.06%	7.28%	9.85%
Foreclosed properties to total assets	0.23	0.22	0.13
Nonperforming assets to total assets	3.15	4.25	6.68
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	7.85	8.41	10.63
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	3.85	4.75	7.14
Ratios: Continuing Operations only (excludes assets of companies held for disposal (2):			
Nonaccrual loans to total loans	6.06%	7.28%	7.58%
Foreclosed properties to total assets	0.23	0.21	0.12

Nonperforming assets to total assets	3.17	4.29	5.44
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	7.85	8.41	8.03
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	3.88	4.79	5.64

(1) Commercial, commercial real estate and commercial real estate construction include \$0.3 million, \$1.0 million and \$3.8 million, respectively of loans held for sale at June 30, 2005.

(2) The assets of CIB — Chicago were transferred to companies held for disposal during the third quarter of 2004. However, for comparative purposes the assets of CIB — Chicago are excluded from the June 30, 2004 ratios.

Nonaccrual loans decreased $19.3 million, or 35.6%, from $54.3 million at December 31, 2004 to $35.0 million at June 30, 2005 primarily due to payments and charge-offs during the first half of 2005. The ratio of nonaccrual loans to total loans was 6.1% at June 30, 2005, compared to 7.3% at December 31, 2004.

At June 30, 2005, CIB Marine had eight borrowing relationships (loans to one borrower or a group of borrowers) that were classified as nonaccrual and exceeded $1.0 million. These eight relationships accounted for $28.7 million, or 80.7%, of total nonaccrual loans as of June 30, 2005 and consisted of the following:

- Commercial loans totaling $8.8 million to related borrowers secured by a first lien on business assets and intellectual property. At June 30, 2005, specific reserves of $3.5 million were allocated to this borrowing relationship and $5.0 million charged-off. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial real estate loans in the total amount of $5.7 million to related borrowers secured by first mortgages on two commercial properties and two developments. As of June 30, 2005, specific reserves of $0.4 million were allocated to this relationship with $0.3 million charged-off. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial real estate loans totaling $3.8 million to a borrower secured by a first mortgage and business assets. At June 30, 2005, specific reserves in the amount of $0.4 million were allocated to this relationship with $0.4 million charged-off. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial real estate loans totaling $2.7 million to related borrowers secured by a second mortgage on two office buildings and business assets. As of June 30, 2005, $0.8 million was charged-off. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial real estate loans totaling $2.4 million to a borrower secured by first mortgages on three commercial warehouse properties with $0.9 million charged-off as of June 30, 2005. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial and commercial real estate loans totaling $2.5 million to related borrowers secured by business assets and first mortgages on three commercial properties with $0.9 million allocated in specific reserves as of June 30, 2005. While CIB Marine believes that the value of the collateral securing the obligation approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial and commercial real estate loans totaling $1.5 million to a borrower secured by all business assets and a first mortgage on two commercial real estate properties with net charge-offs totaling $4.4 million as of June 30, 2005. While CIB Marine believes the collateral securing the obligations approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.
- Commercial real estate loans totaling $1.3 million to a borrower secured by a first mortgage lien on commercial property. As of June 30, 2005, $0.2 million was charged-off. While CIB Marine believes the collateral securing the obligations approximates the net book value of the loan, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to this relationship.

Foreclosed properties were $2.8 million at June 30, 2005 and consisted of three properties as compared to $2.9 million at December 31, 2004 and four properties. All foreclosed properties were held for sale. During the first six months of 2005, CIB Marine acquired one commercial property which had a carrying value of $1.1 million at June 30, 2005, and sold two foreclosed properties which had a combined carrying value of $1.2 million at December 31, 2004. CIB Marine recognized a $0.2 million net gain on the sale of these properties.

At June 30, 2005 foreclosed properties consisted of the following:

- A vacant commercial parcel located in Illinois which had a balance of $0.9 million at June 30, 2005. The property was acquired through a deed in lieu of foreclosure in 2002.
- An industrial building located in Wisconsin which had a balance of $0.8 million at June 30, 2005. The property was acquired through foreclosure proceedings in 2003.
- A commercial property located in Illinois which was acquired during the second quarter of 2005 and had a balance of $1.1 million at June 30, 2005.

Restructured loans were $1.5 million at both June 30, 2005 and December 31, 2004. The balance at both June 30, 2005 and December 31, 2004 was due to one commercial real estate loan with a balance of $1.5 million. While CIB Marine believes that the value of the property securing the obligation approximates the net book value of the loan, it cannot provide assurances that the value will be maintained or that there will not be losses with respect to this relationship.

Loans 90 days or more past due and still accruing interest are loans which are delinquent with respect to the payment of principal and/or interest but which management believes all contractual principal and interest amounts due will be collected. CIB Marine had $8.8 million in loans that were 90 days or more past due and still accruing at June 30, 2005 compared to $6.9 million at December 31, 2004. Two borrowing relationships within this category had outstanding balances in excess of $1.0 million at June 30, 2005. The combined outstanding balances of these two borrowing relationships was $6.9 million and accounted for 78.7% of the total loans 90 days or more past due and still accruing at June 30, 2005. One of the two borrowing relationships had total loans outstanding of $5.8 million and was secured by a first and second mortgage on a commercial property. The second borrowing relationship had total loans outstanding of $1.1 million and was secured by a second mortgage on a commercial property. While CIB Marine believes that the value of the property securing the obligation approximates the net book value of the loan, it cannot provide assurances that the value will be maintained or that there will not be losses with respect to this relationship.

The ratio of nonperforming assets and loans 90 days or more past due and still accruing to total assets was 3.88% at June 30, 2005, as compared to 4.79% at December 31, 2004.

A loan is considered impaired when, based on current information and events, it is probable that CIB Marine will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Impaired loans decreased $21.5 million from $51.0 million at December 31, 2004 to $29.5 million at June 30, 2005. The decrease in impaired loans was primarily due to payments and charge-offs. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, CIB Marine does not separately identify individual consumer and residential loans for impairment disclosures.

The following table sets forth information regarding impaired loans:

	June 30, 2005	December 31, 2004	June 30, 2004
		(Dollars in thousands)	
Impaired loans without a specific allowance	$ 11,470	$ 16,535	$ 12,866
Impaired loans with a specific allowance	17,989	34,431	170,698
Total impaired loans	29,459	50,966	183,564
Impaired loans of companies held for disposal (1)	—	—	(107,417)
Impaired loans not including assets of companies held for disposal	$ 29,459	$ 50,966	$ 76,147
Specific allowance related to impaired loans	$ 7,321	$ 10,282	$ 65,934
Specific allowance related to impaired loans included in assets of companies held for disposal (1)	—	—	(33,426)
Specific allowance related to impaired loans not including assets of companies held for disposal	$ 7,321	$ 10,282	$ 32,508

(1) The assets of CIB — Chicago were transferred to companies held for disposal during the third quarter of 2004 and sold during the fourth quarter of 2004. However, for comparative purposes the assets of CIB — Chicago are included in the June 30, 2004 companies held for disposal amounts.

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Companies Held For Disposal

Assets and liabilities of companies held for disposal, as shown on the consolidated balance sheets, are comprised of CIB Construction, MICR Inc. and MSI at both June 30, 2005 and December 31, 2004.

Banking regulations limit the holding period for assets not considered to be permissible banking activities and which have been acquired in satisfaction of debt previously contracted to five years, unless extended. Both MICR and CIB Construction are subject to this restriction.

Reconciliation of assets/liabilities of companies held for disposal

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets of companies held for disposal:		
CIB Construction	$ 9.807	$ 13,697
MICR	2,521	2,706
MSI	821	1,429
Other (1)	(930)	(2,967)
Total assets of companies held for disposal	$ 12,219	$ 14,865
Liabilities of companies held for disposal:		
CIB Construction	$ 6,279	$ 10,222
MICR	972	864
MSI	1,733	2,360
Other (1)	1,023	(3,309)
Total liabilities of companies held for disposal	$ 10,007	$ 10,137

(1) Includes mortgage banking assets/liabilities held by affiliates, tax liability on subsidiary sold in 2004 and elimination of intercompany transactions between subsidiaries and affiliates.

CIB Construction (includes Canron)

CIB Construction, a wholly-owned subsidiary of CIB Marine, acquired 84% of the outstanding stock of Canron through loan collection activities in 2002. At the time Canron was acquired it was CIB Marine’s intention to operate the business with long-range plans to sell the business within the five year holding period permitted by regulators. During the third quarter of 2003, the Boards of Directors of CIB Marine and of Canron authorized management to cease operating Canron and commence a wind down of its affairs and a voluntary liquidation of its assets. The gross assets and liabilities of CIB Construction and its subsidiaries are reported separately on the consolidated balance sheets at their estimated liquidation values less costs to sell. Intercompany loan and cash balances and interest income and expense between consolidated CIB Construction and CIB Marine have been eliminated from the totals shown on the consolidated financial statements. During the first half of 2005, CIB Marine recognized a $2.7 million recovery of impairment losses recognized in prior periods. The net income or loss associated with CIB Construction is included in discontinued operations for all periods presented.

In April 2005, Canron sold its remaining facility in Rexdale, Ontario for $8.2 million, and a portion of the proceeds, $2.6 million, were used to pay off the remaining balance of its debt to CIB Marine.

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The following table summarizes the composition of CIB Construction's balance sheets. The balance sheets reflect estimated liquidation values less costs to sell:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at CIB Marine	$ 876	$ 881
Accounts receivable	1,606	2,194
Other assets	7,325	3,547
Current assets	9,807	6,622
Property and equipment, net	—	7,075
Total assets	$ 9,807	$ 13,697
Liabilities and stockholder's equity:		
Current portion of loans payable to CIB Marine	$ —	$ 2,700
Income tax payable	2,006	2,311
Other liabilities	4,273	5,211
Current liabilities	6,279	10,222
Stockholder's equity	3,528	3,475
Total liabilities and stockholder's equity	$ 9,807	$ 13,697

MICR

In 2000, CIB Marine acquired and/or assumed through MICR, a wholly-owned subsidiary of CIB – Chicago, the business and certain assets and liabilities of a manufacturer of payment processing systems. In January 2005, CIB Marine retained the services of an investment broker to assist in the marketing and sale of MICR. The gross assets and liabilities of MICR are reported on the consolidated balance sheet as assets or liabilities of companies held for disposal and the net income or loss associated with MICR is included in discontinued operations for all periods presented. During the six months ended June 30, 2005, MICR paid CIB Marine $0.7 million in dividends.

The following table summarizes the composition of MICR's balance sheet:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at non-affiliates	$ 153	$ 288
Accounts receivable	440	765
Inventory	1,109	1,121
Other current assets	293	28
Property and equipment, net	291	269
Goodwill, net	235	235
Total assets	$ 2,521	$ 2,706
Liabilities and stockholder's equity:		
Liabilities	$ 972	$ 864
Stockholder's equity	1,549	1,842
Total liabilities and stockholder's equity	$ 2,521	$ 2,706

MSI

In September 1995, CIB Marine acquired Mortgage Services of Illinois, Inc., a mortgage origination and mortgage brokerage services company. In 1998, CIB Marine changed the name of this subsidiary to Mortgage Services, Inc ("MSI"). MSI sold substantially all of these mortgage loans in the secondary market with servicing rights released. Due to the underperformance of this subsidiary, CIB Marine sold to an unrelated party substantially all of the assets and operations of MSI during the third quarter of 2004. CIB Marine is in the process of winding down the remaining affairs of this company and has incurred certain liabilities with respect to the operations of the mortgage company. These liabilities include repurchase obligations relative to certain mortgage loans as a result of borrower fraud and/or documentation issues, and potential tax liabilities.

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The following table summarizes the composition of MSI's balance sheet:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Assets:		
Cash on deposit at CIB Marine	$ 53	$ 341
Loans held for sale	—	53
Net loans	19	—
Property and equipment, net	—	35
Accrued income tax receivable	605	621
Other assets	144	379
Total assets	$ 821	$ 1,429
Liabilities and stockholder's equity:		
Loans payable to CIB Marine	$ 569	$ 303
Other liabilities	1,164	2,057
Total liabilities	1,733	2,360
Stockholder's equity	(912)	(931)
Total liabilities and stockholder's equity	$ 821	$ 1,429

During the first quarter of 2004, based on the expected fair value of the subsidiary, CIB Marine recognized a $1.0 million impairment loss related to the value of customer base intangibles and additional contingent consideration due under the original purchase agreement. The $1.0 million impairment loss is included in discontinued operations on CIB Marine's consolidated statements of operations. There were no impairment losses recognized during the first half of 2005.

Assets and Deposits of Branches Held For Sale

At June 30, 2005 one of CIB Marine's subsidiary banks had for sale the deposits, property and equipment of one of its branches located in Sebring, Florida. At June 30, 2005, the total deposits of this branch were $7.7 million and the total property and equipment net of accumulated depreciation was $0.3 million. These assets and liabilities are included in assets and deposits held for sale as of June 30, 2005.

Deposit Liabilities

Total deposits decreased $137.0 million, or 11.6%, from $1.2 billion at December 31, 2004 to $1.0 billion at June 30, 2005. This decrease was primarily due to a $30.3 million decrease in savings deposits and a $93.3 million decrease in time deposits. The decrease in deposits is due to the less competitive rate setting practices adopted by CIB Marine for both money market accounts and time deposits, and a decline in overall commercial relationship banking activity as loan relationships declined. Time deposits represent the largest component of deposits. The percentage of time deposits to total deposits was 60.7% at June 30, 2005 and 61.5% at December 31, 2004. These percentages reflect CIB Marine's reliance on time deposits as a primary source of funding. At June 30, 2005 time deposits of $100,000 or more amounted to $159.7 million, or 25.3%, of total time deposits, compared to $248.5 million and 34.3% at December 31, 2004. CIB Marine accepts brokered time deposits periodically to meet short-term funding needs and/or when their related costs are at or below those being offered on other deposits. Brokered time deposits were $55.6 million, or 8.8%, of total time deposits at June 30, 2005, and $62.0 million, or 8.6% of total time deposits at December 31, 2004.

Borrowings

CIB Marine utilizes various types of borrowings to meet liquidity needs, fund asset growth and/or when the pricing of these borrowings is more favorable than deposits. Total borrowed funds increased $2.0 million from $87.9 million at December 31, 2004 to $89.9 million at June 30, 2005. The increase occurred in short-term borrowings which were $20.8 million at June 30, 2005 as compared to $18.8 million at December 31, 2004.

Capital and Regulatory Matters

CIB Marine and its subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Pursuant to federal holding company and bank regulations, CIB Marine and each bank subsidiary is assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated in accordance with specific instructions included in the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the bank subsidiaries must meet specific capital guidelines that involve quantitative measures of the bank's assets and certain off-balance sheet items as calculated under regulatory accounting practices. The banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. To be categorized as well capitalized, the bank subsidiaries must maintain total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios of 10.0%, 6.0% and 5.0%, respectively.

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

At June 30, 2005, pursuant to FDIC regulations in 12 C.F.R. Part 325 Marine FSB, Marine – Wisconsin and CIB – Indiana were classified as well capitalized and Central Illinois Bank and Citrus Bank were each categorized as adequately capitalized. While those banks classified as adequately capitalized met the capital ratio criteria of a well capitalized bank at June 30, 2005, they were each subject to a cease and desist order or written agreement as of that date, and pursuant to the FDIC regulations, a bank that is subject to any written agreement or order to meet and maintain a specific capital level for any capital measure cannot be classified as well capitalized.

In the second quarter of 2004, CIB Marine entered into a Written Agreement ("Agreement") with the Federal Reserve Bank and, Central Illinois Bank, Marine – Wisconsin and CIB – Indiana each consented to the issuance of Cease and Desist Orders ("Orders") with banking regulatory authorities. Additionally, in the third quarter of 2004, Citrus Bank entered into a Written Agreement ("Agreement") with the Office of the Comptroller of the Currency. Among other items, the Orders and Agreements restrict the payment of cash dividends without prior written consent from the regulators and require the banks to maintain a Tier 1 leverage capital level equal to or exceeding 8% of the bank's total assets. The Agreement with the OCC also requires Citrus Bank to maintain a total capital ratio of not less than 14%. In April 2005, the Cease and Desist Orders at Marine – Wisconsin and CIB – Indiana were each terminated as a result of improvements at such banks and replaced with Memoranda of Understanding ("Memoranda"), which were entered into in March 2005. Pursuant to the Memoranda, the banks agreed to maintain Tier 1 capital equal to or exceeding 8% of the total assets as defined in Part 325 of the FDIC Rules and Regulations, correct loan administration deficiencies, reduce concentrations and problem credits and not declare or pay cash dividends without regulatory approval. These restrictions are in force until such Orders, Memoranda and Agreements are terminated. Failure to comply with the Orders, Memoranda or Agreements could have a material adverse effect on CIB Marine and its operations. As of June 30, 2005, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Orders, Memoranda and Agreements.

The risk-based capital information of CIB Marine at June 30, 2005 and December 31, 2004 is contained in the following table:

	June 30, 2005	December 31, 2004
	(Dollars in thousands)	
Risk weighted assets	$ 771,058	$ 942,040
Average assets (1)	1,283,293	2,194,824
Capital components Stockholders' equity	$ 84,935	$ 92,892
Restricted core capital:		
Junior subordinated debentures net of investment in trust	60,000	60,000
Minority interests in consolidated subsidiaries	—	—
Total restricted core capital elements	60,000	60,000
Disallowed amounts	(31,688)	(29,036)
Maximum allowable in tier 1 capital	28,312	30,964
Nonfinancial equity items	(14)	(15)
Less: disallowed intangibles	(982)	(982)
Less: unrealized loss (gain) on securities	920	642
Tier 1 capital	113,171	123,501
Allowable allowance for loan losses	9,821	11,995
Allowable subordinated debentures net of investment in trust	31,688	29,036
Total risk-based capital	$ 154,680	$ 164,532

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	Actual		Minimum Required to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
June 30, 2005				
Total capital to risk weighted assets	$154,680	20.06%	$61,685	8.00%
Tier 1 capital to risk weighted assets	113,171	14.68	30,842	4.00
Tier 1 leverage to average assets	113,171	8.82	51,332	4.00
December 31, 2004				
Total capital to risk weighted assets	$164,532	17.47%	$75,363	8.00%
Tier 1 capital to risk weighted assets	123,501	13.11	37,682	4.00
Tier 1 leverage to average assets	123,501	5.63	87,793	4.00

(1) Average assets as calculated in accordance with 12 C.F.R. Part 325 of the FDIC rules and regulations which requires a quarter to date average and allows for current period adjustments of goodwill and other intangible assets.

New Accounting Pronouncements

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised), *Share-Based Payment* (SFAS 123R). The objective of SFAS 123R is to recognize in an entity's financial statements the cost of employee services received in exchange for valuable equity instruments issued to employees in share-based payment transactions. A key provision of SFAS 123R requires public companies to adopt a fair value-based method of accounting. Under this method, the cost of employee services received in exchange for equity instruments would be measured based on the grant date fair value of these instruments. The cost would be recognized over the requisite service period. SFAS 123R was applied by CIB Marine prospectively as of January 1, 2006 and did not materially affect CIB Marine's consolidated financial statements.

Changes in Accounting Principle

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"). SFAS 154, which is effective for accounting changes made in fiscal years beginning after December 15, 2005, requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The adoption of SFAS 154 did not materially affect CIB Marine's consolidated financial statements.

Investments

In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, and directed the staff to issue proposed FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, as final. The final FSP will supersede EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." The final FSP (retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments) will replace the guidance set forth in paragraphs 10-18 of EITF Issue 03-1 with references to existing other-than-temporary impairment guidance, such as SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, SEC Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 will codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. FSP FAS 115-1 will be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. Adoption of this standard did not materially affect CIB Marine's consolidated financial statements.

Derivatives

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No 133 and 140* ("SFAS 155"). SFAS 155 requires entities to evaluate and identify whether interests in securitized financial assets are freestanding derivatives, hybrid financial instruments that contain embedded derivatives that require bifurcation, or hybrid financial instruments that contain embedded derivatives that do not require bifurcation. SFAS 155 also permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement will be effective for all financial instruments acquired or issued on or after January 1, 2007 and did not materially affect CIB Marine's consolidated financial statements.

Servicing of Financial Assets

In March 2006, the FASB issued Statement of Financial Accounting Standards No 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No 140 ("SFAS 156").* SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits subsequent measurement of servicing assets and servicing liabilities using either a fair value method or an amortization method. This statement is effective for fiscal years beginning after September 15, 2006. Adoption of this standard did not materially affect CIB Marine's consolidated financial statements.

Income Taxes

In June 2006, the FASB issued Statement of Interpretation No. 48 to clarify the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The Interpretation prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The effect of a tax position is recognized in the financial statements if it is determined that it is more likely than not the position will be sustained upon examination by taxing authorities, including resolution of any related appeals or litigation processes, based on its technical merits. The effect is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. The Interpretation is effective for fiscal years beginning after December 15, 2006, although earlier application is encouraged. CIB Marine is still assessing the impact of adoption of the Interpretation on its consolidated financial statements.

Fair Value Measurements

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 also expands disclosures about the use of fair value to measure assets and liabilities in interim and annual reports subsequent to initial recognition. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. CIB Marine is still assessing the impact of adoption of SFAS 157 on its consolidated financial statements.

In February 2007 the FASB issued Statement of Financial Accounting Standard No 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115 ("SFAS 159").* SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. CIB Marine is still assessing the provisions of SFAS 159.

Consideration of the Effects of Prior Year Misstatements on Current Year Financial Statements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 provides guidance on how to evaluate prior period financial statement misstatements for purposes of assessing their materiality in the current period. If the prior period effect is material to the current period, then the prior period is required to be corrected. Correcting prior year financial statements would not require an amendment of prior year financial statements, but such corrections would be made the next time the company files the prior year financial statements. Upon adoption, SAB 108 allows a one-time transitional cumulative effect adjustment to retained earnings for corrections of prior period misstatements required under this statement. SAB 108 is effective for fiscal years beginning after November 15, 2006. The adoption of SAB 108 did not materially affect CIB Marine's consolidated financial statements.

Liquidity

The objective of liquidity risk management is to ensure that CIB Marine has adequate funding capacity to fund commitments to extend credit, deposit account withdrawals, maturities of borrowings, and other obligations in a timely manner. CIB Marine actively manages its liquidity position by estimating, measuring, and monitoring its sources and uses of funds. CIB Marine's sources of funding and liquidity include both asset and liability components. CIB Marine's funding requirements are primarily met by the inflow of funds from deposits, loan repayments and investment maturities. CIB Marine also makes use of noncore funding sources in a manner consistent with its liquidity, funding and market risk policies. Noncore funding sources are used to meet funding needs and/or when the pricing and continued availability of these sources presents lower cost funding opportunities. Short-term noncore funding sources utilized by CIB Marine include federal funds purchased, securities sold under agreements to repurchase, short-term borrowings from the Federal Home Loan Bank, and short-term brokered and negotiable time deposits. CIB Marine also has established borrowing lines with the Federal Reserve Bank and nonaffiliated banks. Long-term funding sources, other than core deposits, include long-term brokered and negotiable time deposits and long-term borrowings from the Federal Home Loan Bank. Additional sources of liquidity include cash and cash equivalents, federal funds sold, sales of loans held for sale, and the sale of securities.

During 2004 and 2005 some of the borrowing sources customarily utilized by CIB Marine were restricted or unavailable due to noncompliance with certain asset quality, earnings, and capital maintenance debt agreements and the inability to provide audited consolidated financial statements. Federal funds borrowings by certain of CIB Marine's subsidiary banks were discontinued or were contingent on subsidiary bank pledges of fixed income investment securities, the FHLB of Chicago restricted lending terms, and derivative counterparties increased collateral requirements. Brokered deposits were restricted by FDIC rules and regulations at subsidiary banks which were defined as less than well capitalized due to either low levels of capital, the issuance of Cease and Desist Orders, or formal written agreements by regulatory agencies. Where eligible, the FDIC granted permissible waivers at the subsidiary banks, making the banks eligible to accept, renew or rollover brokered deposits. During 2004, credit available to CIB Marine's subsidiary banks was restricted and on less favorable terms. The subsidiary banks were restricted from daylight overdraft and other activity at their respective Federal Reserve Banks, and were required to pledge securities in order to have access to the federal discount window. Additionally, pursuant to a Written Agreement between CIB Marine and the Federal Reserve Bank, CIB Marine must obtain Federal Reserve Bank approval before incurring additional borrowings or debt. Pursuant to regulatory agreements consented to by certain of CIB Marine's bank subsidiaries, the subsidiaries must obtain regulatory approval before paying cash dividends. These restrictions could potentially impact liquidity.

The following discussion should be read in conjunction with the consolidated statements of cash flows contained in the consolidated financial statements.

CIB Marine's primary source of funds for the six months ended June 30, 2005 came from a net decrease in the loan portfolio of $148.5 million. Other sources of funds came from $0.2 million in investing cash flows of discontinued operations, a $2.0 million increase in short-term borrowings, $1.4 million in proceeds from the sale of foreclosed properties, and $4.2 million in cash provided by operating activities.

A net decrease in deposits of $129.2 million and a $135.3 million net increase in investment securities was CIB Marine's primary use of funds for the six months ended June 30, 2005. Other uses of funds include $2.2 million to purchase property and equipment.

The Company had liquid assets from continuing operations of $123.5 million and $233.9 million at June 30, 2005 and December 31, 2004, respectively.

CIB Marine was able to meet its liquidity needs during the first six months of 2005. During 2004 CIB Marine deferred payments on its trust preferred securities outstanding. The deferral period may last as long as 5 years. CIB Marine's subsidiary banks have higher levels of liquid assets to meet potentially high levels of liquidity needs. During 2007, it is expected that CIB Marine will have adequate funding capacity to meet its obligations.

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Subsequent Events

Charter Consolidation

In March 2006 and August 2006, CIB Marine merged Marine FSB and CIB – Indiana, respectively, into Marine – Wisconsin. CIB Marine may also consider the consolidation of additional charters in the future as part of its strategy to become more efficient.

Sale and Wind Down of Nonbank Subsidiaries

CIB Construction/Canron

Canron is continuing to collect both on and off-balance sheet receivables and settle and resolve payables and claims through the voluntary liquidation process. In 2006, Canron paid $1.0 million in dividends to CIB Construction, and CIB Construction paid $1.6 million in dividends to CIB Marine. In the first quarter of 2007, Canron paid $0.9 million in dividends to CIB Construction and CIB Construction paid $1.0 million in dividends to CIB Marine. As of March 31, 2007, CIB Marine's net investment in CIB Construction was approximately $(1.2) million.

MICR

In January 2005, CIB Marine retained the services of an investment broker to assist in the marketing and sale of MICR. Substantially all the assets and operations of MICR were sold in the fourth quarter of 2005. The sale resulted in a pretax gain of $0.2 million.

Regulatory Orders and Agreements

In April 2005, Central Illinois Bank, Marine – Wisconsin and CIB – Indiana entered into Memoranda of Understanding with the FDIC and their state banking regulators as a result of deficiencies related to controls over information technology. These memoranda were terminated in January 2006. In September 2006, the Written Agreement with Citrus Bank was terminated. In January 2007, the Cease and Desist Order at Central Illinois Bank was terminated and replaced with a Memorandum of Understanding.

Management Changes

Upon the merger of Marine FSB into Marine – Wisconsin in March 2006, Jerry L. Schwallier, formerly President and CEO of Marine FSB, was appointed Market President of the bank's western operations. Mr. Schwallier subsequently resigned in September 2006. In September 2006, Robert Churan was appointed Market President of the western operations. In April 2006, John P. Hickey, Jr. was appointed President and CEO of Marine – Wisconsin, replacing Michael J. Miller who resigned in February 2006. Stanley J. Calderon, President and CEO of CIB Marine served as interim President and CEO of Marine – Wisconsin from February 2006 to April 2006. Upon the merger of CIB – Indiana into Marine – Wisconsin in August 2006, J. Brian Chaffin, formerly the President of CIB – Indiana, was appointed Market President of the bank's Indiana operations. In March 2007, Mr. Calderon was elected Chairman of the Board of CIB Marine, replacing Mr. W. Scott Blake, who remains a director. In March 2007, Mr. Calderon also resigned as President and CEO of CIB Marine and was replaced by Mr. Hickey. Mr. Calderon's employment agreement with CIB Marine terminated upon his resignation as President and CEO.

Liquidity

During 2005, 2006 and into 2007, some of the borrowing sources customarily utilized by CIB Marine continued to be contingent on subsidiary bank pledges of fixed income investment securities, including availability of federal funds purchased with correspondent banks, short-term borrowing availability from the Federal Home Loan Bank of Chicago and borrowing availability at the Federal Reserve Bank's discount window.

In the first quarter of 2007, CIB Marine decided to sell certain securities in its available for sale portfolio. The sale of these securities in 2007 supports CIB Marine's asset-liability strategy of selling lower yielding assets and purchasing higher yielding assets. A portion of the proceeds were used to pay down certain short-term liabilities incurred as a result of the sale of branches and the purchase of a pool of home equity loans in 2007. As a result of the 2007 sale of securities, CIB Marine determined the full value of those certain securities would not be fully recovered and accordingly, recognized an other-than-temporary impairment loss of $2.0 million and $1.3 million on these securities during 2005 and 2006, respectively.

Loan Pool Purchase

CIB Marine has purchased two pools of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation: a $47.8 million pool in June 2006 and a $48.2 million pool in February 2007. The 2006 purchase was funded with $12.0 million in FHLB Chicago borrowings with the remainder coming from cash on hand. The 2007 purchase was funded with cash on hand and $15.0 million in FHLB Chicago borrowings. The June 2006 pool consisted of 989 loans at purchase with a weighted average yield of 9.5%, term to maturity of 17.3 years, loan-to-value ratio of 91%, borrower debt service-to-income ratios of 39% and FICO score of 713. The February 2007 pool included at purchase 965 loans with a weighted average yield of 9.98%, term to maturity of 17.5 years, loan-to-value ratio of 94%, borrower debt service-to-income ratios of 40% and FICO score of 709. The majority of the loans in the purchased pools are not considered to be loans to subprime borrowers. CIB Marine hired an outside consulting firm with experience in home equity loan pool purchases to assist it in selecting the selling company and in the due diligence process performed on a sample of the purchased loans. CIB Marine continues to look at alternative investments including possible further loan purchases in an effort to increase both the balances of loans outstanding and the yield on its interest-earning assets.

Cost Controls and Reduction in Force Program

During 2005, 2006 and the first quarter of 2007, CIB Marine continued its overall cost savings program which included a reduction in force program and expense controls. Eligible employees impacted by the reduction in force program were paid severance using a consistent formula based upon employee status and years of service. Under the program, CIB Marine reduced its work force during 2006 and the first quarter of 2007 by 18 full-time equivalent employees with an annual base pay of $0.8 million and incurred approximately $0.2 million in severance expenses. The total number of full-time equivalent employees of companies included in continuing operations as of December 31, 2005 and 2006 and March 31, 2007 were 359, 301 and 292, respectively.

Branch Activities

2005 – In the fourth quarter of 2005, after each of CIB Marine’s subsidiary banks performed an evaluation of the effectiveness of their respective branch networks, three branches were closed, one was sold and several others were actively solicited for sale. Central Illinois Bank closed a branch in Peoria, Illinois, CIB – Indiana closed a branch in Indianapolis, Indiana, and Citrus Bank closed a branch on Biscayne Boulevard in Miami, Florida. The deposits at these branches as of December 31, 2004 were $5.8 million, $6.9 million and $1.8 million, respectively. Citrus Bank also sold a branch in Sebring, Florida which held $11.0 million in deposits as of December 31, 2004. The net pretax income effects of these activities was a $0.1 million charge to expense as a result of expenses related to the two branch closings of $0.4 million offset by a $0.3 million gain on the branch sale. At December 31, 2005, CIB Marine had 37 branches holding $0.9 billion in deposits.

2006 – Marine – Wisconsin sold branches in Grafton, Wisconsin and Omaha, Nebraska and closed its Rockville Rd., Indianapolis, Indiana branch with minimal costs. Also during 2006, Central Illinois Bank sold its Arthur, Lincoln, Rantoul and Springfield, Illinois branches. The net gain on the sale of the six branches was $2.7 million. The total deposits of these sold branches as of December 31, 2005 were $78.8 million. At December 31, 2006, CIB Marine had 30 branches holding $0.8 billion in deposits.

2007 – In February and May 2007, Marine – Wisconsin sold its Cedarburg and Brookfield, Wisconsin branches, resulting in a total net gain on the sales of $1.1 million. The branches had $49.9 million in deposits at the time of sales. During the second quarter of 2007, CIB Marine closed or had filed a regulatory application to close its Henderson, Nevada; Sun City, Arizona; and Indianapolis (Fox Road), Indiana branches. At December 31, 2006, these three branches had total deposits of $44.4 million. Deposits of closed branches are transferred to other CIB Marine branches.

Goodwill

The balance of CIB Marine’s goodwill at December 31, 2005 is a result of prior branch acquisitions. As a result of the branch sales during 2006 and the first quarter of 2007, CIB Marine had no goodwill at March 31, 2007.

FDIC Deposit Insurance Premiums

Deposit insurance premiums decreased to $1.1 million in 2006 primarily due to the reduction in the rate assessed Central Illinois Bank as a result of the improvement of the risk classification of the bank.

In October 2006, the FDIC Board of Directors approved a One-Time Assessment Credit. This credit, totaling $0.6 million for CIB Marine's subsidiary banks, will be recorded as a credit against regular FDIC insurance premium expense beginning in January 2007 and continue until the credit is exhausted. Of the $0.6 million, an estimated $0.2 million will be used to offset the FDIC insurance premium during 2007.

Stock Options

As a result of the reduction in force program, resignations and other management and Board of Directors changes, in the last six months of 2005 and during 2006, 103,013 and 332,916 shares, respectively, of previously granted stock options lapsed and/or were surrendered and became available for future grants under CIB Marine's 1999 Stock Option and Incentive Plan. In September and October 2005, a total of 523,750 options were granted to various employees of the company at an exercise price of $4.10 per share. In March 2006, 83,000 options were granted at an exercise price of $4.10 per share, and on November 16, 2006, an additional 400,750 options were granted at an exercise price of $4.10 per share. As of December 31, 2006, there were 1,172,321 options outstanding with a weighted average exercise price of $8.47, and as of March 31, 2007 there were 1,118,089 options outstanding with a weighted average exercise price of $8.38. In May 2007, an additional 74,000 options were granted at an exercise price of $4.10 per share.

Late Filing of Tax Returns

CIB Marine did not file all required federal and state tax returns for calendar years 2004 and 2005 by the required due dates. The 2004 federal return was subsequently filed in February 2007 and the state returns were filed during the second quarter of 2007. Although CIB Marine does not anticipate taxable income during these periods, penalties and interest may still be assessed by the Internal Revenue Service and/or applicable state departments of revenue. Upon conclusion of the audit of the financial statements for 2005 and the filing of the related Form 10-K and Form 10-Qs with the SEC, CIB Marine intends to complete and file the 2005 tax returns.

Foreclosed properties

Foreclosed properties were $2.9 million as of December 31, 2005, but were reduced to $0.1 million by December 31, 2006 and March 31, 2007 as a result of the sales of four properties at a recorded loss of $0.3 million.

FHLB Stock Investment Activity

In 2005, the FHLB Chicago Board disclosed its decision to discontinue redemption of excess, or voluntary, capital stock. Voluntary stock is stock held by members beyond the amount required as a condition of membership or to support advance borrowings. In April 2006, the FHLB Chicago announced plans to facilitate limited stock redemption requests from its members by issuing bonds. During 2006, the FHLB Chicago issued a limited amount of bonds to facilitate voluntary capital stock redemptions and CIB Marine sold back $14.3 million or 55.6% of its holdings. This represented approximately 58.7% of the stock CIB Marine requested to be redeemed at that time. As of both December 31, 2006 and March 31, 2007, CIB Marine had $11.5 million in FHLB Chicago stock, of which $0.6 million was categorized as required. The FHLB Chicago plans to facilitate the redemption of a limited amount of additional voluntary stock again in 2007 and 2008, as necessary to meet member demand.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since December 31, 2004, CIB Marine's market risk profile has become less sensitive to declining rates. The decrease in sensitivity to declining rates is in part due to the reduction in short-term repricing assets and the increase in longer term repricing assets. For additional information regarding CIB Marine's market risk, refer to its 2004 Annual Report on Form 10-K, which is on file with the Securities and Exchange Commission.

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The following table illustrates the period and cumulative interest rate sensitivity gap for June 30, 2005.

Repricing Interest Rate Sensitivity Analysis

	June 30, 2005						
	0-3 Months	4-6 Months	7-12 Months	2-5 Years	Over 5 Years	Held for sale/ disposal	Total
	(Dollars in thousands)						
Interest-earning assets:							
Loans	$313,936	$ 23,498	$ 29,858	$179,080	$ 31,572	$ (18)	$ 577,926
Securities	138,205	91,565	85,291	187,052	11,194	—	513,307
Loans held for sale	15,885	—	—	—	—	—	15,885
Federal funds sold	90,286	—	—	—	—	—	90,286
Total interest-earning assets	558,312	115,063	115,149	366,132	42,766	(18)	1,197,404
Interest-bearing liabilities:							
Time deposits	145,612	65,394	150,599	262,013	13,901	(5,462)	632,057
Savings and interest-bearing demand deposits	296,808	—	—	—	—	(1,946)	294,862
Short-term borrowings	19,003	—	1,800	—	—	—	20,803
Long-term borrowings	—	—	—	7,250	—	—	7,250
Junior subordinated debentures	20,619	—	—	—	41,238	—	61,857
Total interest-bearing liabilities	$482,042	$ 65,394	$152,399	$269,263	$ 55,139	$ (7,408)	$1,016,829
Interest sensitivity gap (by period)	76,270	49,669	(37,250)	96,869	(12,373)	7,390	180,575
Interest sensitivity gap (cumulative)	76,270	125,939	88,689	185,558	173,185	180,575	180,575
Adjusted for derivatives:							
Derivatives (notional, by period)	(4,031)	—	—	5,000	(969)	—	—
Derivatives (notional, cumulative)	(4,031)	(4,031)	(4,031)	969	—	—	—
Interest sensitivity gap (by period)	72,239	49,669	(37,250)	101,869	(13,342)	7,390	180,575
Interest sensitivity gap (cumulative)	72,239	121,908	84,658	186,527	173,185	180,575	180,575
Cumulative gap as a % of total assets	5.77%	9.73%	6.76%	14.88%	13.82%	14.41%	

The following table illustrates the expected percentage change in net interest income over a one-year period due to the immediate change in short-term U.S. prime rate of interest as of June 30, 2005, and December 31, 2004.

	Basis point changes			
	+200	+100	-100	-200
Net interest income change over one year:				
June 30, 2005	9.93%	3.96%	(6.13)%	(13.94)%
December 31, 2004	6.52%	3.40%	(9.05)%	(14.59)%

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

CIB Marine maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed by the company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosure. Disclosure controls include components of internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

CIB Marine's management, under the supervision and with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of June 30, 2005. As a part of its evaluation, management has evaluated whether the control deficiencies related to the material weakness in internal control over financial reporting which was reported in the 2004 Form 10-K continue to exist. As of June 30, 2005, CIB Marine has determined that it has not completed the implementation and/or testing of the changes in controls and procedures that it believes are necessary to conclude that the material weakness has been remediated. Based on this evaluation, management has concluded that the disclosure controls and procedures were ineffective as of June 30, 2005, solely as a result of the material weakness in internal control over financial reporting described in the next paragraph.

CIB Marine did not have sufficient or adequate policies and procedures over information technology (IT) change management. Specifically, CIB Marine did not have policies and procedures designed to prevent unauthorized changes to IT programs, queries and calculations. This deficiency results in more than a remote likelihood that a material misstatement of CIB Marine's annual or interim consolidated financial statements would not be prevented or detected.

Management has undertaken procedures in order to conclude that reasonable assurance exists regarding the reliability of financial reporting and the preparation of the condensed consolidated financial statements contained in this filing. Accordingly, Management believes that the condensed consolidated financial statements included in this Form 10-Q fairly present, in all material respects, CIB Marine's financial position, results of operations, and cash flows for the periods presented.

(b) Changes in Internal Control over Financial Reporting

There were no changes in CIB Marine's internal control over financial reporting during the quarter ended June 30, 2005, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Material pending litigation, other than that of a routine nature in the ordinary course of business, is as follows:

In August 2003, Keith Burchett, a shareholder of CIB Marine and a borrower of CIB – Chicago, commenced an action in the Circuit Court of Cook County, Illinois, against CIB Marine, Central Illinois Bank, CIB – Chicago and two of their now former directors and/or officers for damages arising out of alleged fraudulent misrepresentations relative to the financial condition of Canron and its principal shareholder by defendants to induce the plaintiff to borrow money from CIB – Chicago and make a $0.5 million investment in Canron. Plaintiff asserts claims for fraud and shareholder remedies. The shareholder remedies action alleges the defendants' violations of lending regulations caused a decline in the plaintiff's investment in CIB Marine. Plaintiff seeks an unspecified amount of compensatory and punitive damages, requests an order requiring CIB Marine and the banks to repurchase his CIB Marine shares of stock at fair value, and other forms of relief. While the outcome of these claims cannot be determined at this time, CIB Marine intends to vigorously defend this action. Central Illinois Bank has been removed as a defendant in subsequent amended complaints filed by the plaintiff. On November 30, 2004, CIB Marine sold CIB – Chicago.

In June 2004, Central Illinois Bank commenced an action in the Circuit Court of the Sixth Judicial Circuit, Champaign County, Illinois, against John C. Hadley and Mary Lydia Hadley, CIB Marine's largest individual shareholders at the time, for damages arising out of the Hadleys' default in December 2003 of certain loan obligations (the "State Litigation") and subsequently obtained a confession of judgment. The loans approximate $9.7 million plus interest and attorneys fees and are secured by CIB Marine stock and the accounts receivable, inventory, equipment and other personal property of the borrowers and their restaurant supply and coin businesses. In December 2004, the Hadleys consented to the entry of an order for relief under Chapter 11 of the Bankruptcy Code pending in the United States Bankruptcy Court for the Central District of Illinois (the "Bankruptcy Case"). The Hadleys stayed the State Litigation and, in the first quarter of 2006, the Hadleys filed a counterclaim against Central Illinois Bank in the dischargeability adversary proceeding that sought to recover $35.0 million in actual damages and punitive damages for the alleged loss or substitution by Central Illinois Bank of certain rare coins and collectibles which the Hadleys alleged were pledged to the bank as collateral, sought to recover certain alleged preferential transfers and sought to equitably subordinate the bank's claim to those of unsecured creditors. Central Illinois Bank and the Hadleys have settled these matters with the approval of the Bankruptcy Court. According to the settlement agreement, the adversary complaint and counterclaims in the Bankruptcy Court and the State Litigation were dismissed with prejudice and without admitting any fault or liability; the parties exchanged mutual general releases of claims among the Hadleys, Central Illinois Bank and its parent and affiliated corporations, preserving only the Hadleys' claims as members of a putative plaintiff class in an action currently pending in the United States District Court for the Eastern District of Wisconsin entitled *Dennis Lewis, et al. v. CIB Marine Bancshares, Inc., et al.*, Case No. 05-C-1008 or as individual plaintiffs in an "opt out" action against some or all of the same parties alleging substantially the same claims; and Central Illinois Bank discharged, waived, released and assigned its claims in the Bankruptcy Case to the Hadleys' bankruptcy estate, returned to the Hadleys' bankruptcy estate all collateral security held by Central Illinois Bank and paid the bankruptcy estate $1.75 million in the first quarter of 2007. CIB Marine recorded a $1.75 million contingent liability expense in 2006 related to the settlement.

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In June 2004, John C. Ruedi, a former employee of CIB Marine, filed an action against CIB Marine and "Central Illinois Bancorp, Inc." in the Circuit Court of the Sixth Judicial District, Champaign County, Illinois for rescission or damages, including punitive damages, in connection with plaintiff's October 1, 2002 exercise of options issued by CIB Marine to acquire 36,688 shares of CIB Marine common stock at various exercise prices. Plaintiff claims that but for CIB Marine's and Central Illinois Bancorp, Inc.'s alleged fraudulent concealment of material facts regarding the financial condition of CIB Marine he would not have exercised his options. Plaintiff also seeks to recover from Central Illinois Bancorp, Inc. and CIB Marine in excess of $40,000 allegedly due Plaintiff pursuant to a purported memorandum providing for the payment of an incentive to Plaintiff in connection with his employment. In March 2005, Plaintiff amended his complaint to add the former President and CEO of CIB Marine as a defendant based upon claims of alleged fraudulent concealment. (Claims filed in the action against CIB Marine's independent registered public accounting firm KPMG LLP (hereinafter "KPMG") and a retired partner of KPMG were voluntarily dismissed by the Plaintiff.) CIB Marine filed a motion to dismiss several of Plaintiff's claims and answered the others denying liability. That motion to dismiss was denied and CIB Marine answered the remaining counts against it, denying liability. Plaintiff filed a motion for summary judgment seeking recovery of $40,000 from CIB Marine on his incentive payment claim. This motion was denied. All discovery has been stayed in this action by an order of the federal court in the Dennis Lewis case described later in this section, with the result that this suit is currently dormant. Plaintiff has filed a motion in the Lewis case to vacate the discovery stay in this case. No date has been set for a ruling on that motion, which CIB Marine and the other defendants in the Lewis case opposed. While the ultimate outcome of these claims cannot be determined at this time, CIB Marine intends to vigorously defend the action.

On June 3, 2005, a first consolidated complaint was filed by Dennis Lewis, a shareholder, and other alleged shareholders of CIB Marine in the United States District Court for the Central District of Illinois, Urbana Division, against CIB Marine, certain of its current and former officers and directors, and KPMG. The filing consolidated two actions that had been filed in January 2005: one filed by Lewis in the United States District Court for the Central District of Illinois, Urbana Division and another filed in the United States District Court for the Central District of Illinois, Peoria Division by Elaine Sollberger, a purported shareholder, whose claims were voluntarily dismissed in connection with the consolidation, and have not been reasserted in the consolidated complaint. Plaintiffs sought to maintain the action as a class action on behalf of all persons who purchased common stock of CIB Marine between April 12, 1999, and April 12, 2004, claiming violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by CIB Marine and other defendants and liability of certain defendants other than CIB Marine and KPMG under Section 20(a) of the Securities Exchange Act as controlling persons. The substance of the complaint is that the financial condition of CIB Marine was overstated with the result that members of the purported class acquired their CIB Marine stock at inflated prices. Plaintiffs seek money damages, interest, attorneys' fees and costs. The federal court in Urbana, Illinois granted the motion of CIB Marine and several other defendants to transfer the action to the United States District Court for the Eastern District of Wisconsin, sitting in Milwaukee, Wisconsin, where the action is now pending.

All defendants moved to dismiss the action on various grounds. On October 12, 2006 the court denied CIB Marine's motion to dismiss, granted in part the motions to dismiss filed by the individual defendants and granted the motion to dismiss filed by KPMG. CIB Marine and the individual defendants have filed answers to the pending complaint denying any liability. An additional person has moved to intervene as a plaintiff in the action. On November 10, 2006, plaintiffs filed a further amended complaint as to KPMG, which KPMG has moved to dismiss. As a result of the filing of the initial motions to dismiss, all discovery in this action was stayed automatically. Plaintiffs have moved to vacate that stay of discovery, which all defendants opposed based on KPMG's pending motion to dismiss the further amended complaint filed by plaintiffs against KPMG. The court has not set a date to rule on the motion to vacate the stay of discovery. On July 16, 2007, CIB Marine and the individual defendants filed a motion for judgment on the pleadings or, in the alternative, a motion for reconsideration of the ruling on the motion to dismiss, insofar as that motion was denied, in light of a recent decision of the U.S. Supreme Court concerning the pleading requirements applicable to this case. CIB Marine intends to vigorously contest certification of any class action and to otherwise vigorously defend this action. The ultimate outcome of this action cannot be determined at this time.

In April 2005, James Fasano and Thomas Arundel, shareholders of CIB Marine and borrowers of CIB – Chicago, commenced an action in the Circuit Court of Cook County, Illinois, against CIB Marine, CIB – Chicago and two of their now former directors and/or officers for damages arising out of alleged fraudulent misrepresentations relative to the financial condition of Canron and its principal shareholder to induce the plaintiffs to borrow $0.5 million from CIB – Chicago and invest it in Canron. Plaintiffs assert claims for fraud and shareholder remedies. The shareholder remedies action alleges the defendants' violations of lending regulations caused a decline in the plaintiffs' investment in CIB Marine. Plaintiffs seek an unspecified amount of compensatory and punitive damages, request an order requiring CIB Marine and the bank to repurchase their CIB Marine shares of stock at fair value, and other forms of relief. While the outcome of these claims cannot be determined at this time, CIB Marine intends to vigorously defend this action. On November 30, 2004, CIB Marine sold CIB – Chicago.

In December 2003, CIB – Chicago acquired the title to a commercial office building that was being converted into residential condominiums. The property was acquired through a Deed in Lieu of Foreclosure Settlement Agreement (“DIL Agreement”) from a borrower who was in default on its obligation. The property was included in foreclosed properties at December 31, 2003. Pursuant to the DIL Agreement, CIB – Chicago acquired the property subject to the first lien held by an unaffiliated financial institution and assumed the borrower’s financial obligation relating to that first lien. At December 31, 2003, the assumed financial obligation was reported as an outstanding non-recourse mortgage note payable. During the second quarter of 2004, CIB – Chicago transferred all of its rights, title and interest in the property, along with the borrower’s obligation under the related mortgage note, to the first lien holder. CIB – Chicago transferred the property based upon its evaluation that the amount of additional funds necessary to complete the project was greater than the financial benefits and risks associated therewith. The property was transferred without any further liability or obligation to the first lien position holder and CIB – Chicago reserved its legal rights to pursue the borrower and guarantors. The transfer to the first lien holder resulted in no additional gain or loss to CIB Marine. During 2003, CIB Marine charged-off $41.7 million of the loan to its allowance for loan loss with respect to this borrowing relationship and also recorded a $1.5 million market value write down on the property. In July 2004, CIB – Chicago commenced litigation in the United States District Court for the Northern District of Illinois, Eastern Division, against the borrower, guarantors and their related interests for collection of the losses incurred by CIB Marine based upon state law claims of breach of agreements, fraud, conversion and other theories of recovery, including Federal RICO violations. In November 2004, CIB – Chicago assigned the loans and claims related to this development to CIB Marine in conjunction with the sale of CIB – Chicago. In April 2005, the United States District Court dismissed the RICO claim and, as a result, lacked jurisdiction over the state law claims. In April 2005, CIB Marine commenced an action in the Circuit Court of Cook County, Illinois, against the defendants on the state law claims. In the event that there are any recoveries with respect to these loans and claims, CIB Marine has agreed to pay the purchaser of CIB – Chicago ten percent of any recovery after collection costs. To date, CIB Marine has not made any recoveries with respect to such loans and claims.

On April 20, 2006, Mark A. Sindecuse filed an action in the United States District Court, Eastern District of Missouri, Eastern Division (St. Louis) against CIB Marine, Dean M. Katsaros (“Katsaros”), a former director of the Company, and Katsaros & Associates, Inc. The complaint, as amended, purported to assert common law causes of action against CIB Marine for fraud and negligent misrepresentation in connection with plaintiff’s purchases of common stock of CIB Marine in private placements in 1995, 1996, 1997 and 1998. CIB Marine filed a motion to dismiss the amended complaint, which resulted in the dismissal of the negligent misrepresentation claims against it. Additional claims were also asserted against the other defendants, which the plaintiff has announced an intention to withdraw. Plaintiff seeks compensatory damages of an out-of-pocket loss of “over $500,000 plus interest on his loans and loss of use of his money” and the plaintiff seeks damages of approximately $2,000,000 for “the difference between the value when [plaintiff] attempted to sell his stock and its present value.” Plaintiff also seeks unspecified punitive damages. CIB Marine has filed an answer denying any liability to plaintiff and has filed a motion for summary judgment on the remaining claim against it. The court has set a schedule for this case that provides for trial to commence on October 15, 2007. CIB Marine intends to defend the action vigorously.

CIB Marine and the individual defendants in the Ruedi, Burchett, Fasano/Arundel and Lewis cases described above, are insureds under a policy that on its face purports to provide coverage for those cases, including the costs of defense (payment of which by the insured reduces the remaining coverage under the policy), which include attorneys’ fees. With respect to the Ruedi and Lewis cases the insurer has reserved all rights and notified CIB Marine and the other insureds of potential grounds to deny coverage. After CIB Marine exhausted the retention under that policy, the insurer paid substantially all of the costs of defense of CIB Marine and the individual defendants in the Ruedi and Lewis cases through February 17, 2006 subject to its reservation of rights to seek reimbursement. On that date the insurer informed the insureds of its intention to terminate any further funding of the costs of defense. Negotiations ensued and CIB Marine and the insurer discussed an arrangement in which the insurer would pay 35% of the costs of defense of the Ruedi and Lewis cases incurred by CIB Marine and the individual defendants and CIB Marine would pay the remaining 65% of those reasonable costs. This agreement has not been reduced to writing. With respect to the individual defendants, the payment of these defense costs by CIB Marine is pursuant to the provision of its by-laws that mandates advancing defense costs of directors and officers under certain circumstances and a full reservation of rights under the policy by both parties. The advances to individuals are subject to repayment by the individual defendants if it is ultimately determined, as provided in the by-laws and applicable Wisconsin law, that they are not entitled to be indemnified. The arrangement under discussion with the insurer would provide that either CIB Marine or the insurer could terminate the funding arrangement under certain circumstances. In the event of termination, CIB Marine would be responsible for all of the reasonable costs of defense of CIB Marine and the individual defendants in the Ruedi and Lewis cases. Defense costs in the other cases submitted for coverage continued to be paid by the insurer subject to the insurer’s reservation of rights under the policy; however, the insurer has recently informed CIB Marine that it wishes to discuss a similar funding arrangement with respect to the Burchett and Fasano cases and that it will terminate funding pending such an arrangement.

With respect to the Burchett and Fasano/Arundel cases, after CIB Marine exhausted retention under that policy, the insurer paid substantially all of the costs of defense of CIB Marine and the individuals through March 31, 2007, subject to its reservation of rights. On March 14, 2007, the insurer informed the insureds of its intention to terminate funding of all of the costs of defense in those actions on or after April 1, 2007 and proposed a funding arrangement comparable to that discussed with respect to the Ruedi and Lewis cases. No agreement has been reached with respect to post-April 1, 2007 funding of defense costs in the Burchett and Fasano/Arundel cases. With respect to the individual defendants, the payment of these defense costs by CIB Marine is pursuant to the provision of its by-laws that mandates advancing defense costs of directors and officers under certain circumstances and a full reservation of rights under the policy by both parties. The advances to individuals are subject to repayment by the individual defendants if it is ultimately determined, as provided in the by-laws and applicable Wisconsin law, that they are not entitled to be indemnified.

It is not possible to estimate the amount or timing of the defense costs that will be paid by CIB Marine from and after February 17, 2006 in the Ruedi and Lewis cases or in the other cases described above. The following factors, among others, could cause actual results to differ from those described in the preceding forward-looking statement and affect the amount and timing of the expenses referred to with respect to the Ruedi and Lewis cases: (1) the federal court's decision on whether to vacate the existing stays of discovery and, if one or both stays are vacated, the scope of discovery that is allowed by the court and/or requested by the plaintiffs; (2) the extent, if any, to which the Lewis case is allowed to proceed and, if so, allowed to proceed as a class action; (3) the scope of discovery pursued by the plaintiffs (and the timing and substance of the court's rulings on any objections thereto by defendants) if and when discovery proceeds irrespective of the existing stays of discovery; (4) whether plaintiffs are able to state a cause of action against KPMG and, if so, what actions KPMG takes in defense of the claim against it; (5) the extent to which CIB Marine and the individual defendants and their respective counsel are able to coordinate their defense of the action and in particular minimize duplication of activities in defense of the case; (6) if the funding arrangement is finally agreed to by CIB Marine, the individual defendants and the insurer, the insurer's determinations of what services and costs are reasonable and appropriate under the insurer's guidelines for paying the costs of defense; (7) CIB Marine's determination of what costs of defense are "reasonable" within the meaning of its by-laws and any claims made by individual defendants whose costs of defense may be rejected in whole or in part on that ground; (8) the occurrence of circumstances that would lead either CIB Marine or the insurer to terminate the funding arrangement described above if in fact an agreement is entered into; and (9) the extent to which any individual defendant whose costs of defense are advanced by CIB Marine is ultimately required to repay those costs and, if so, the ability of that person to make repayment.

In July 2007, Mark Swift and M.A. Swift & Associates Ltd., purported minority shareholders of a former loan customer of CIB Marine Capital, LLC ("CIB Capital"), filed a lawsuit in US District Court for the Northern District of Illinois, Eastern Division, against CIB Capital and CIB Marine. The lawsuit alleges that CIB Capital and CIB Marine committed fraud in the course of collection activities upon a defaulted loan. The suit alleges that CIB Capital and CIB Marine "forced" a sale of collateral at less than fair market value to the detriment of the plaintiffs and other minority shareholders of the borrower corporation. CIB Capital and CIB Marine deny the allegations of fraud and intend to seek dismissal of the complaint against both. Plaintiffs seek unspecified damages in excess of $2,000,000.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

CIB Marine did not submit any matters to a vote of its shareholders during the second quarter of 2005.

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

Exhibit 10. 1 – CIB Marine Bancshares, Inc. Severance Pay Plan (incorporated by reference to Exhibit 10.1 of CIB Marine's Form 8-K filed with the Securities and Exchange Commission on April 18, 2005).

Exhibit 31.1 – Certification of John P. Hickey, Jr., Chief Executive Officer, under Rule 13(a) – 14(a)/15d – 14(a).

Exhibit 31.2 – Certification of Steven T. Klitzing, Chief Financial Officer, under Rule 13(a) – 14(a)/15d – 14(a).

Exhibit 32.1 – Certification of John P. Hickey, Jr., Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 – Certification of Steven T. Klitzing, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on this 18th day of July, 2007.

CIB MARINE BANCSHARES, INC.
(Registrant)

By: /s/ STEVEN T. KLITZING
Steven T. Klitzing
Executive Vice President and Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION

I, John P. Hickey, Jr., Chief Executive Officer of CIB Marine Bancshares, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CIB Marine Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 18, 2007

By: /s/ John P. Hickey, Jr.
John P. Hickey, Jr.
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Steven T. Klitzing, Chief Financial Officer, of CIB Marine Bancshares, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CIB Marine Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a — 15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 18, 2007

By: /s/ Steven T. Klitzing
Steven T. Klitzing
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of CIB Marine Bancshares, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John P. Hickey, Jr., as Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 18, 2007

By: /s/ John P. Hickey, Jr.
John P. Hickey, Jr.
Chief Executive Officer

EXHIBIT 32.2

Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of CIB Marine Bancshares, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven T. Klitzing, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: July 18, 2007	By: /s/ Steven T. Klitzing
	Steven T. Klitzing
	Executive Vice President and
	Chief Financial Officer