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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2006**

**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 September 30, 2007 CIB Marine had 18,346,442 shares of common stock outstanding.

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## EXPLANATORY NOTE

This document is intended to speak as of September 30, 2006, except as otherwise noted.

### FORM 10-Q TABLE OF CONTENTS

	<u>Page #</u>
<b>Part I-Financial Information</b>	
Item 1 Financial Statements (Unaudited)	
Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005	3
Consolidated Statements of Operations for the Quarter and Nine Months Ended September 30, 2006 and 2005	4
Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2006 and 2005	5
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3 Quantitative and Qualitative Disclosures About Market Risk	46
Item 4 Controls and Procedures	47
<b>Part II-Other Information</b>	
Item 1 Legal Proceedings	47
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3 Defaults Upon Senior Securities	51
Item 4 Submission of Matters to a Vote of Security Holders	51
Item 5 Other Information	51
Item 6 Exhibits	51
<b>Signatures</b>	52
Certification of Chief Executive Officer	
Certification of Chief Financial Officer	
906 Certification of Chief Executive Officer	
906 Certification of Chief Financial Officer	

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CIB MARINE BANCSHARES, INC.****Consolidated Balance Sheets**

	September 30, 2006 (Unaudited)	December 31, 2005
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 23,174	\$ 24,554
Federal funds sold	56,125	88,358
Total cash and cash equivalents	79,299	112,912
Loans held for sale	520	—
Securities	383,622	493,409
Loans	553,713	515,544
Allowance for loan losses	(22,109)	(24,882)
Net loans	531,604	490,662
Premises and equipment, net	11,317	12,914
Accrued interest receivable	5,563	5,133
Foreclosed properties	104	2,931
Assets of branches held for sale	450	723
Assets of companies held for disposal	4,445	5,913
Goodwill	746	982
Other assets	13,049	12,849
Total assets	<u>\$ 1,030,719</u>	<u>\$ 1,138,428</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing demand	\$ 84,215	\$ 99,483
Interest-bearing demand	36,639	49,389
Savings	190,595	220,037
Time	440,705	498,791
Total deposits	752,154	867,700
Short-term borrowings	30,217	25,001
Long-term borrowings	2,000	7,250
Junior subordinated debentures	61,857	61,857
Accrued interest payable	22,590	16,896
Deposits of branches held for sale	75,325	66,991
Liabilities of companies held for disposal	7,289	8,316
Other liabilities	6,807	5,235
Total liabilities	958,239	1,059,246
<b>Stockholders' Equity</b>		
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	158,285	158,163
Accumulated deficit	(101,556)	(93,528)
Accumulated other comprehensive loss, net	(2,282)	(3,435)
Receivables from sale of stock	(151)	(202)
Treasury stock at cost, 12,663 shares	(162)	(162)
Total stockholders' equity	<u>72,480</u>	<u>79,182</u>

Total liabilities and stockholders' equity

\$ 1,030,719

\$ 1,138,428

See accompanying Notes to Unaudited Consolidated Financial Statements

[Table of Contents](#)

**CIB MARINE BANCSHARES, INC.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
(Dollars in thousands, except share and per share data)				
<b>Interest and Dividend Income</b>				
Loans	\$ 10,274	\$ 9,158	\$ 27,842	\$ 29,535
Loans held for sale	1	80	1	83
Securities:				
Taxable	4,520	4,244	13,658	10,624
Tax-exempt	40	103	129	451
Dividends	138	298	503	1,025
Federal funds sold	979	1,064	3,203	3,310
Total interest and dividend income	15,952	14,947	45,336	45,028
<b>Interest Expense</b>				
Deposits	7,559	6,790	21,507	20,269
Short-term borrowings	404	290	728	436
Long-term borrowings	37	92	219	274
Junior subordinated debentures	1,975	1,645	5,714	4,854
Total interest expense	9,975	8,817	28,168	25,833
Net interest income	5,977	6,130	17,168	19,195
Provision for credit losses	(1,079)	(5,238)	(3,364)	(8,281)
Net interest income after provision for credit losses	7,056	11,368	20,532	27,476
<b>Noninterest Income</b>				
Loan fees	17	112	136	334
Deposit service charges	256	302	797	870
Other service fees	48	53	156	581
Other income	121	121	248	299
Net gain on sale of assets	1,094	—	2,021	—
Gain on sale of investment securities, net	—	201	—	355
Total noninterest income	1,536	789	3,358	2,439
<b>Noninterest Expense</b>				
Compensation and employee benefits	5,005	6,528	16,108	20,191
Equipment	764	1,044	2,580	3,008
Occupancy and premises	798	887	2,502	2,833
Professional services	1,079	767	2,951	2,595
Impairment loss on investment securities	—	191	1,134	1,353
Write down and losses on assets	—	426	—	2,124
Other expense	1,708	2,591	7,262	7,340
Total noninterest expense	9,354	12,434	32,537	39,444
Loss from continuing operations before income taxes	(762)	(277)	(8,647)	(9,529)
Income tax expense (benefit)	53	(2,113)	(178)	(2,270)
<b>Income (loss) from continuing operations</b>	(815)	1,836	(8,469)	(7,259)
<b>Discontinued operations:</b>				
Pretax income from discontinued operations	332	51	619	3,524
Income tax expense (benefit)	(53)	2,102	178	4,159
Income (loss) from discontinued operations	385	(2,051)	441	(635)
<b>Net loss</b>	\$ (430)	\$ (215)	\$ (8,028)	\$ (7,894)
<b>Earnings (Loss) Per Share</b>				
Basic:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Discontinued operations	0.02	(0.11)	0.02	(0.03)
Net loss	\$ (0.02)	\$ (0.01)	\$ (0.44)	\$ (0.43)

<b>Diluted:</b>				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Discontinued operations	<u>0.02</u>	<u>(0.11)</u>	<u>0.02</u>	<u>(0.03)</u>
Net loss	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.44)</u>	<u>\$ (0.43)</u>
Weighted average shares-basic	18,333,779	18,333,779	18,333,779	18,333,779
Weighted average shares-diluted	18,333,779	18,333,779	18,333,779	18,333,779

[Table of Contents](#)

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

	<u>Common Stock</u>		<u>Capital Surplus</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Stock Receivables and Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>					
<b>Balance, December 31, 2004</b>	18,346,442	\$ 18,346	\$158,163	\$ (81,867)	\$ (642)	\$ (1,108)	\$92,892
Comprehensive loss:							
Net loss	—	—	—	(7,894)	—	—	(7,894)
Other comprehensive loss:							
Realized losses on securities available for sale	—	—	—	—	(1,353)	—	(1,353)
Unrealized securities holding gains arising during the period	—	—	—	—	201	—	201
Total comprehensive loss							(9,046)
Reduction in receivables from sale of stock	—	—	—	—	—	644	644
<b>Balance, September 30, 2005 (unaudited)</b>	<u>18,346,442</u>	<u>\$ 18,346</u>	<u>\$158,163</u>	<u>\$ (89,761)</u>	<u>\$ (1,794)</u>	<u>\$ (464)</u>	<u>\$84,490</u>
<b>Balance, December 31, 2005</b>	18,346,442	\$ 18,346	\$158,163	\$ (93,528)	\$ (3,435)	\$ (364)	\$79,182
Comprehensive loss:							
Net loss	—	—	—	(8,028)	—	—	(8,028)
Other comprehensive loss:							
Impairment loss on investment securities	—	—	—	—	(1,134)	—	(1,134)
Unrealized securities holding gains arising during the period	—	—	—	—	2,287	—	2,287
Total comprehensive loss							(6,875)
Stock option expense	—	—	122	—	—	—	122
Reduction in receivables from sale of stock	—	—	—	—	—	51	51
<b>Balance, September 30, 2006 (unaudited)</b>	<u>18,346,442</u>	<u>\$ 18,346</u>	<u>\$158,285</u>	<u>\$ (101,556)</u>	<u>\$ (2,282)</u>	<u>\$ (313)</u>	<u>\$72,480</u>

See accompanying Notes to Unaudited Consolidated Financial Statements

[Table of Contents](#)

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

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
<b>Cash Flows from Operating Activities</b>		
Net loss from continuing operations	\$ (8,469)	\$ (7,259)
Net income (loss) from discontinued operations	441	(635)
	<u>(8,028)</u>	<u>(7,894)</u>
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred loan fee amortization	(493)	(745)
Depreciation and other amortization	2,574	1,916
Provision for credit losses	(3,364)	(8,281)
Originations of loans held for sale	(1,378)	—
Proceeds from sale of loans held for sale	868	—
Net gain on sale of assets and deposits	(2,021)	—
Write down and losses on assets	—	2,124
Impairment loss on investment securities	1,134	1,353
Gain on sale of investment securities, net	—	(355)
Decrease (increase) in interest receivable and other assets	(1,984)	3,049
Increase in interest payable junior subordinated debentures	5,673	4,813
Decrease in other interest payable and other liabilities	(5,009)	(1,126)
Operating cash flows of discontinued operations	(450)	2,623
Net cash used in operating activities	<u>(12,478)</u>	<u>(2,523)</u>
<b>Cash Flows from Investing Activities</b>		
Maturities of securities available for sale	129,332	459,919
Purchase of securities available for sale	(80,428)	(342,860)
Proceeds from sales of securities available for sale	—	9,639
Repayments of asset and mortgage-backed securities available for sale	62,834	49,273
Purchase of asset and mortgage-backed securities available for sale	(4,746)	(305,975)
Net decrease (increase) in Federal Home Loan Bank Stock	9,768	(11,951)
Net (increase) decrease in other investments	680	(13)
Net decrease (increase) in loans	(37,074)	181,769
Proceeds from sale of loans held for sale	—	24,113
Proceeds from sale of foreclosed properties	2,521	1,372
Net cash received from the sale of branches	2,933	—
Capital expenditures	(528)	(2,265)
Investing cash flows of discontinued operations	891	3,177
Net cash provided by investing activities	<u>86,183</u>	<u>66,198</u>
<b>Cash Flows from Financing Activities</b>		
Decrease in deposits	(55,621)	(194,632)
Decrease in deposits held for sale	(9,478)	—
Deposits sold	(42,185)	—
Repayments of long-term borrowings	(5,250)	—
Net increase in short-term borrowings	5,216	29,828
Net decrease in receivables from sale of stock	—	400
Net cash used in financing activities	<u>(107,318)</u>	<u>(164,404)</u>
Net decrease in cash and cash equivalents	(33,613)	(100,729)
Cash and cash equivalents, beginning of period	112,912	233,935
Cash and cash equivalents, end of period	<u>\$ 79,299</u>	<u>\$ 133,206</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid (received) during the period for:		
Interest expense-continuing operations	\$ 22,474	\$ 21,431
Interest expense-discontinued operations	—	30
Income taxes-continuing operations	—	(5,763)

Income taxes-discontinued operations	2	(458)
<b>Supplemental Disclosures of Noncash Activities</b>		
Transfer of loans to foreclosed properties	52	1,400
Transfer of commercial loans to loans held for sale	—	25,847
Transfer deposits to deposits of branches held for sale	59,997	44,271
Transfer assets to assets of branches held for sale	445	540

See accompanying Notes to Unaudited Consolidated Financial Statements

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## Table of Contents

### **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") 2005 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 nine-months ended September 30, 2006 and 2005. The results of operations for the quarter and nine-months ended September 30, 2006 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, Inc. ("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. 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 or loss of companies which meet the criteria as discontinued operations and which are held for disposal at September 30, 2006 are included in income or loss from discontinued operations for all periods presented. 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 September 30, 2006, 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 and Nevada. 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 September 30, 2006, options to purchase 753,669 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 the fair market value of the common stock on the option grant date. Options vest over five years. CIB Marine issues new shares upon the exercise of options.

The following is a reconciliation of stock option activity for the nine months ended September 30, 2006:

## Table of Contents

	Number of Shares	Range of Option Prices per Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Weighted Average Grant Date Fair Value Per Share
Shares under option at December 31, 2005	1,021,487	\$4.10-23.66	\$ 10.85		
Granted	83,000	\$ 4.10	\$ 4.10		\$ 0.69
Lapsed or surrendered	(222,426)	4.10-23.66	9.87		
Exercised	—	—	—		
Shares under option at September 30, 2006	882,061	\$4.10-22.89	\$ 10.47	6.12	
Share exercisable at September 30, 2006	488,995	\$4.10-22.89	\$ 14.89	3.86	

The following table shows activity relating to nonvested stock options:

Nonvested stock options at December 31, 2005	493,963
Granted	83,000
Vested	(73,050)
Forfeited	(110,847)
Nonvested stock options at September 30, 2006	393,066

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (“SFAS No. 123 (R)”), “Share-Based Payments,” which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” SFAS No. 123 (R) supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and amends SFAS No. 95, “Statement of Cash Flows.” A key provision of SFAS No. 123 (R) requires public companies to adopt Statement 123’s fair-value method of accounting for stock options. Under this method, the cost of employee services received in exchange for equity instruments is measured based on the grant-date fair value of these instruments. The cost is recognized over the requisite service period. SFAS No. 123 (R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. Pro forma disclosure for grants after 2005 is no longer an alternative. Prior to January 1, 2006, CIB Marine accounted for stock options using the intrinsic value method. Under the intrinsic value method compensation expense for employee stock options was generally not recognized if the exercise price of the option equaled or exceeded the fair market value of the stock on the date of grant. Therefore, no compensation expense was recognized in the consolidated statements of income for the years ended December 31, 2005 and 2004. On January 1, 2006, CIB Marine adopted SFAS No 123(R) using the modified-prospective method for grants issued subsequent to CIB Marine meeting the definition of a public entity as defined in SFAS No 123(R) and the prospective method for grants issued prior to CIB Marine meeting that definition. For those grants accounted for under the prospective method, SFAS 123(R) must only be applied to the extent that those awards are subsequently modified, repurchased or cancelled. For those grants accounted for under the modified prospective method, compensation cost recognized during 2006 includes compensation cost for these stock options granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and compensation cost for all stock options granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. Fair value has been estimated using the Black-Scholes model as defined in SFAS 123.

The following assumptions were used in estimating the fair value for options granted in 2006 and 2005:

	September 30,	
	2006	2005
Dividend yield	—	—
Risk free interest rate	4.63%	4.25%
Expected volatility	40%	48%
Weighted average expected life	6.5 years	6.5 years
Weighted average per share fair value of options	\$ 0.76	\$ 1.47

The adoption of SFAS No. 123 (R)’s fair value method resulted in \$0.1 million compensation expense for the first nine months of 2006. In accordance with SFAS No. 123 (R), CIB Marine is required to estimate potential forfeitures of stock grants and adjust compensation expense recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized in the period of change and will also impact the amount of stock compensation expense to be recorded in future periods. At September 30, 2006, CIB Marine had \$0.4 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 4.1 years.

SFAS 123 No. (R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than an operating cash flow as required under previous literature. There were no such tax benefits during the nine months ended September 30, 2006.



## Table of Contents

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)			
<b>September 30, 2006</b>				
U.S. government agencies	\$116,098	\$ 282	\$ 708	\$115,672
Obligations of states and political subdivisions	33,697	107	523	33,281
Other notes and bonds	350	—	—	350
Asset-backed securities	2,596	5	—	2,601
Corporate commercial paper	4,274	—	—	4,274
Mortgage-backed securities	211,925	478	1,923	210,480
Total securities available for sale	368,940	872	3,154	366,658
Federal Home Loan Bank and Federal Reserve Bank stock at cost	16,964	—	—	16,964
	<u>\$385,904</u>	<u>\$ 872</u>	<u>\$ 3,154</u>	<u>\$383,622</u>
<b>December 31, 2005</b>				
U.S. government agencies	\$155,867	\$ 55	\$ 974	\$154,948
Obligations of states and political subdivisions	27,580	151	177	27,554
Other notes and bonds	350	—	—	350
Asset-backed securities	9,568	10	—	9,578
Corporate commercial paper	13,033	38	—	13,071
Mortgage-backed securities	263,727	183	2,721	261,189
Total securities available for sale	470,125	437	3,872	466,690
Federal Home Loan Bank and Federal Reserve Bank stock at cost	26,719	—	—	26,719
	<u>\$496,844</u>	<u>\$ 437</u>	<u>\$ 3,872</u>	<u>\$493,409</u>

Securities available for sale with a carrying value of \$139.6 million and \$161.5 million at September 30, 2006 and December 31, 2005, respectively, were pledged to secure public deposits, Federal Home Loan Bank advances, repurchase agreements, federal funds purchased and borrowings from the federal reserve discount window and other purposes as required.

In the first quarter of 2007, CIB Marine decided to sell certain securities in its available for sale portfolio. 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 \$1.1 million and \$1.4 during the nine months ended September 30, 2006 and 2005, respectively. This impairment loss is included in impairment loss on investment securities on the consolidated statements of operations.

As members of the Federal Reserve System and the Federal Home Loan Bank, certain of CIB Marine's subsidiary banks are required to maintain minimum amounts of Federal Reserve stock and Federal Home Loan Bank stock as required by those institutions. These securities are "restricted" in that they are not publicly traded and can only be owned by members of the institutions. 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 borrowing. 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 \$9.7 million during the first nine months of 2006. As of September 30, 2006, CIB Marine had \$16.1 million in FHLB Chicago stock, of which \$0.9 million was categorized as required. See subsequent events discussion for further information regarding the liquidity of CIB Marine's investment in FHLB Chicago stock.

## Table of Contents

### Note 4-Loans

The components of loans are as follows:

	September 30, 2006		December 31, 2005	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial	\$ 55,143	10.0%	\$ 69,048	13.4%
Commercial real estate	305,134	55.1	323,384	62.6
Commercial real estate construction	113,038	20.4	89,313	17.3
Residential real estate	16,088	2.9	19,925	3.9
Home equity	62,052	11.2	12,603	2.4
Consumer	2,103	0.4	2,179	0.4
Receivables from sale of CIB Marine stock	(151)	(0.0)	(202)	(0.0)
Gross loans	553,407	100.0%	516,250	100.0%
Deferred loan fees	306		(706)	
Total loans	553,713		515,544	
Allowance for loan losses	(22,109)		(24,882)	
Loans, net	<u>\$531,604</u>		<u>\$490,662</u>	

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 \$7.7 million and \$9.5 million at September 30, 2006 and December 31, 2005, 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 \$2.3 million and \$2.8 million as of September 30, 2006 and December 31, 2005, respectively.

At September 30, 2006 and December 31, 2005, CIB Marine had \$1.7 million and \$1.9 million, respectively, in outstanding principal balances on loans secured, or partially secured, by CIB Marine stock. Specific reserves on these loans were \$0.01 million at both September 30, 2006 and December 31, 2005. 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.

During the second quarter of 2006, CIB Marine purchased a \$47.8 million pool of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation. The purchased pool consisted of 989 loans 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 following table lists information on nonperforming and certain past due loans:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Nonaccrual loans	\$21,331	\$29,105
Restructured loans	—	1,486
Loans 90 days or more past due and still accruing	2,192	11,542

Information on impaired loans is as follows:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Impaired loans without a specific allowance	\$ 6,120	\$ 10,511
Impaired loans with a specific allowance	14,840	18,349
Total impaired loans	<u>\$ 20,960</u>	<u>\$ 28,860</u>
Specific allowance related to impaired loans	<u>\$ 7,785</u>	<u>\$ 8,562</u>

## Table of Contents

Changes in the allowance for loan losses were as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
Balance at beginning of period	\$23,105	\$24,470	24,882	29,551
Charge-offs	(3)	(402)	(261)	(3,845)
Recoveries	86	6,118	852	7,523
Net loan recoveries	83	5,716	591	3,678
Provision for loan losses	(1,079)	(5,238)	(3,364)	(8,281)
Balance at end of period	<u>\$22,109</u>	<u>\$24,948</u>	<u>\$22,109</u>	<u>\$24,948</u>
Allowance for loan losses as a percentage of loans	<u>3.99%</u>	<u>4.60%</u>	<u>3.99%</u>	<u>4.60%</u>

### Note 5-Goodwill

At September 30, 2006 and December 31, 2005, CIB Marine had \$0.7 million and \$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. There were no impairment losses recognized in either 2006 or 2005. During the second quarter of 2006, CIB Marine sold the fixed assets and deposits of its branch located in Grafton, Wisconsin. Goodwill of \$0.2 million was allocated to this branch.

### 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 the following:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Assets of companies held for disposal:		
CIB Construction (1)	\$ 3,442	\$ 5,165
MICR (1)	296	595
MSI	780	806
Other (2)	(73)	(653)
Total assets of companies held for disposal	<u>\$ 4,445</u>	<u>\$ 5,913</u>
Liabilities of companies held for disposal:		
CIB Construction (1)	\$ 4,800	\$ 5,161
MICR (1)	297	491
MSI	702	1,901
Other (2)	1,490	763
Total liabilities of companies held for disposal	<u>\$ 7,289</u>	<u>\$ 8,316</u>

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

Income or loss from discontinued operations, as shown on the consolidated statement of operations, is comprised of the following:

## Table of Contents

	<u>Pretax income/(loss) other income</u>	<u>Income tax expense (benefit)</u>	<u>Other Income (1)</u>	<u>Net income/(loss) net of intercompany transactions</u>
(Dollars in thousands)				
<b>Quarter Ended September 30, 2006</b>				
CIB Construction	\$ 411	\$ (43)	\$ —	\$ 454
MSI	(82)	(10)	3	(69)
Total	<u>\$ 329</u>	<u>\$ (53)</u>	<u>\$ 3</u>	<u>\$ 385</u>
<b>Nine Months Ended September 30, 2006</b>				
CIB Construction	\$ 418	\$ 205	\$ —	\$ 213
MSI	172	(22)	29	223
Other (2)	—	(5)	—	5
Total	<u>\$ 590</u>	<u>\$ 178</u>	<u>\$ 29</u>	<u>\$ 441</u>
<b>Quarter Ended September 30, 2005</b>				
CIB Construction	\$ 3	\$ 2,025	\$ —	\$ (2,022)
MICR	359	126	—	233
MSI	(352)	(49)	41	(262)
Total	<u>\$ 10</u>	<u>\$ 2,102</u>	<u>\$ 41</u>	<u>\$ (2,051)</u>
<b>Nine Months Ended September 30, 2005</b>				
CIB Construction	\$ 2,761	\$ 1,975	\$ —	\$ 786
MICR	905	317	—	588
MSI	(317)	(33)	175	(109)
Other (3)	—	1,900	—	(1,900)
Total	<u>\$ 3,349</u>	<u>\$ 4,159</u>	<u>\$ 175</u>	<u>\$ (635)</u>

(1) Includes mortgage banking income/expense recognized by affiliates and intercompany transactions.

(2) Relates to MICR.

(3) 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 consolidated assets and liabilities of CIB Construction are reported separately on the consolidated balance sheets at their estimated liquidation values less costs to sell. During the nine months ended September 30, 2006 and 2005 CIB Marine recognized a \$0.4 million and \$2.7 million, respectively, recovery of impairment losses recognized in prior periods. The recovery is included in discontinued operations on the consolidated statement of operations.

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
(Dollars in thousands)		
<b>Assets:</b>		
Cash on deposit at CIB Marine	\$ 50	\$ 626
Accounts receivable	551	1,572
Other assets	2,841	2,967
Total assets	<u>\$ 3,442</u>	<u>\$ 5,165</u>

**Liabilities and stockholder's equity:**

Income tax payable	\$	3,022	\$	3,106
Other liabilities		<u>1,778</u>		<u>2,055</u>
Total liabilities		4,800		5,161
Stockholder's equity		<u>(1,358)</u>		<u>4</u>
Total liabilities and stockholder's equity	\$	<u>3,442</u>	\$	<u>5,165</u>

## Table of Contents

### MICR

During the fourth quarter of 2005, CIB Marine sold to unrelated parties substantially all of the assets and operations of MICR and changed the company's name to Everett Tech, Inc. CIB Marine is in the process of winding down the remaining affairs of this company.

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
<b>Assets:</b>		
Cash on deposit at non-affiliates	\$ —	\$ 273
Income tax receivable	127	122
Other assets	169	200
Total assets	<u>\$ 296</u>	<u>\$ 595</u>
<b>Liabilities and stockholder's equity:</b>		
Liabilities	\$ 297	\$ 491
Stockholder's equity	(1)	104
Total liabilities and stockholder's equity	<u>\$ 296</u>	<u>\$ 595</u>

### MSI

During the third quarter of 2004, CIB Marine sold to unrelated parties substantially all of the assets and operations of MSI, a mortgage origination and mortgage brokerage services company. 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 external fraud and/or documentation issues, and certain reporting penalties.

The followings table summarizes the compositions of MSI's balance sheet:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
<b>Assets:</b>		
Cash on deposit at CIB Marine	\$ 22	\$ 24
Net loans	102	105
Income tax receivable	655	633
Other assets	1	44
Total assets	<u>\$ 780</u>	<u>\$ 806</u>
<b>Liabilities and stockholder's equity:</b>		
Loans payable to CIB Marine	\$ 104	\$ 829
Other liabilities	598	1,072
Total liabilities	702	1,901
Stockholder's equity	78	(1,095)
Total liabilities and stockholder's equity	<u>\$ 780</u>	<u>\$ 806</u>

### Note 7-Assets and Deposits of Branches Held For Sale

At September 30, 2006, two of CIB Marine's subsidiary banks had for sale the deposits and property and equipment of four of their branches. Two of the branches are located in Illinois and two in Wisconsin. At September 30, 2006, the total deposits of these four branches was \$75.3 million and the total property and equipment net of accumulated depreciation was \$0.4 million. The property, equipment and deposits of these four branches are included in assets and deposits held for sale at September 30, 2006. The property, equipment and deposits of one of these four branches were also included in assets and deposits held for sale at December 31, 2005.

During the nine months ended September 30, 2006, certain of CIB Marine's subsidiary banks sold the deposits and property and equipment of four of their branches and recognized a total net pretax gain of \$2.0 million. The gain

## Table of Contents

on the sales of the branches is included in net gain on sale of assets. Two of the four sold branches were located in Illinois, one in Wisconsin and one in Nebraska. At the date of the sales, the collective deposits and net property and equipment of these sold branches was \$42.2 million and \$0.7 million respectively. Goodwill of \$0.2 million was allocated to the Wisconsin branch. The property, equipment and deposits of these branches were included in assets and deposits held for sale at December 31, 2005. Additionally, during the third quarter of 2006, CIB Marine sold a former branch building located in Bloomington, Illinois at no gain or loss. During the first quarter of 2005, CIB Marine recognized a \$0.2 million impairment loss on the Bloomington building based on its market value. The 2005 impairment loss is included in write down and losses on assets.

### Note 8-Other Assets

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
Prepaid expenses	\$ 1,582	\$ 1,113
Accounts receivable	695	638
Trust preferred securities underwriting fee, net of amortization	1,349	1,390
Investment in trust common securities	2,791	2,654
Other investments	2,949	3,562
Income tax receivable	3,571	3,391
Other	112	101
	<u>\$ 13,049</u>	<u>\$ 12,849</u>

The major components of other investments are as follows:

- Investments in limited partnership interests in various affordable housing partnerships. The carrying value of these investments was \$1.5 million and \$1.8 million, respectively, at September 30, 2006 and December 31, 2005. Equity loss on these limited partnerships was \$0.3 million during the first nine months of 2006 and is included in noninterest expense. 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.
- 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 was \$0.8 million at both September 30, 2006 and December 31, 2005.
- Interest in a company operating as a small business investment company under the Small Business Investment Act of 1958, as amended. CIB Marine committed to a \$0.5 million investment in this company and as of September 30, 2006 has invested \$0.4 million. In the third quarter of 2006, CIB Marine received a capital distribution of \$0.1 million on its investment in this company. During the first nine months of 2005, CIB Marine recognized a \$0.1 million impairment loss on this investment due to a reduction in CIB Marine's interest in the equity value of this investment. There was no impairment loss recognized during the first nine months of 2006. The 2005 impairment loss is included in write down and losses on assets on the consolidated statements of operations. At September 30, 2006 and December 31, 2005, CIB Marine's carrying value of this investment was \$0.2 million and \$0.3 million, respectively.
- Warrants to purchase equity of a publicly traded company. The warrants were received as payment for credit services. The carrying value of the warrants at September 30, 2006 and December 31, 2005 was \$0.4 million and \$0.3 million, respectively. During the first nine months of 2006, CIB Marine recognized a \$0.1 million market value gain on these warrants. The market value gain is included in net gain on assets on the consolidated statement of operations. During the first nine months of 2006, CIB Marine sold its interest in a company operating as a small business investment company under the Small Business Investment Act of 1958, as amended. No gain or loss was recognized on the sale. CIB Marine's carrying value of this investment at December 31, 2005 was \$0.4 million.

## Table of Contents

### Note 9-Short-term Borrowings

The following table presents information regarding short-term borrowings:

	September 30, 2006		December 31, 2005	
	Balance	Rate	Balance	Rate
	(Dollars in thousands)			
Federal funds purchased and securities sold under repurchase agreements	\$ 21,535	4.48%	\$ 20,981	3.50%
Treasury, tax, and loan notes	1,682	5.11	4,020	4.06
Federal Home Loan Bank	7,000	5.62	—	—
Total short-term borrowings	<u>\$ 30,217</u>	4.78%	<u>\$ 25,001</u>	3.56%

At September 30, 2006, 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 these participated standby letters of credit was \$4.9 million at both September 30, 2006 and December 31, 2005, respectively.

During 2006 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 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. During 2006 and 2005 certain of CIB Marine's 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 reserve 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.

### 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:

	September 30, 2006		December 31, 2005		Scheduled Maturity	Callable at Par After
	Balance	Rate	Balance	Rate		
	(Dollars in thousands)					
	\$ —	—%	\$ 3,250	4.95%	01/16/08	01/16/01
	—	—	2,000	4.95	01/16/08	01/16/01
	2,000	5.09	2,000	5.09	02/20/08	02/20/01
Total	<u>\$ 2,000</u>	5.09%	<u>\$ 7,250</u>	4.99%		

CIB Marine is required to maintain qualifying collateral as security for both the short-term and long-term FHLB notes. The debt to collateral ratio is dependent upon the type of collateral pledged. As part of a collateral arrangement with the FHLB, CIB Marine had assets pledged with a collateral value of \$20.1 million and \$11.5 million at September 30, 2006 and December 31, 2005, respectively. These assets consisted of securities with a market value of \$22.4 million and \$12.6 million at September 30, 2006 and December 31, 2005, respectively.

## Table of Contents

### **Note 11-Other Liabilities**

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
Accounts payable	\$ 187	\$ 459
Accrual for unfunded commitments and standby letters of credit	725	725
Accrued real estate taxes	188	201
Accrued compensation and employee benefits	1,374	913
Accrued professional fees	1,419	1,476
Accrued other expenses	2,467	997
Fair value of derivatives	30	37
Other liabilities	417	427
	<u>\$ 6,807</u>	<u>\$ 5,235</u>

Accrued other expenses includes \$1.8 million contingent liability related to the settlement of the John C. Hadley and Mary Lydia Hadley litigation in the first quarter of 2007. See Item 1-Legal Proceedings in Part II of this Form 10-Q for further information regarding this litigation.

### **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 September 30, 2006 and December 31, 2005 totaled \$0.2 million.

#### ***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.

#### ***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 banks' 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 September 30, 2006, pursuant to FDIC regulations in 12 C.F.R. Part 325, Marine-Wisconsin and Citrus Bank were classified as well capitalized and Central Illinois Bank was categorized as adequately capitalized. While Central Illinois Bank met the capital ratio criteria of a well capitalized bank at September 30, 2006, it was subject to

## Table of Contents

a cease and desist order 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.

At September 30, 2006 and December 31, 2005, CIB Marine was subject to a Written Agreement (“Agreement”) it entered into with the Federal Reserve Bank in the second quarter of 2004; Central Illinois Bank was subject to a Cease and Desist Order (“Order”) it consented to with its banking regulatory authorities in the second quarter of 2004; and Marine-Wisconsin was subject to a Memorandum of Understanding (“Memorandum”) it entered into with its respective banking regulators in March 2005. Additionally, at December 31, 2005, Citrus was subject to a Written Agreement (“Citrus Agreement”) it entered into with the Office of the Comptroller of the Currency in the third quarter of 2004 and CIB-Indiana was subject to a Memorandum of Understanding it entered into with its banking regulators in March 2005. The Citrus Agreement was terminated in September 2006 and CIB-Indiana was merged into Marine-Wisconsin in August 2006. Among other items, the Agreement, Order and Memorandum 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 average assets. The Citrus Agreement with the OCC, in addition to the Tier 1 leverage capital ratio of 8%, also required Citrus to maintain total capital to risk weighted assets of not less than 14%. These restrictions are in force until such Agreement, Order and Memorandum are terminated. Failure to comply with the Agreement, Order or Memorandum could have a material adverse effect on CIB Marine and its operations. As of September 30, 2006, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Agreement, Order or Memorandum.

### Note 13-Earnings (Loss) Per Share Computations

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands, except share and per share data)			
Net income (loss) from continuing operations	\$ (815)	\$ 1,836	\$ (8,469)	\$ (7,259)
Weighted average shares outstanding:				
Basic	18,333,779	18,333,779	18,333,779	18,333,779
Effect of dilutive stock options outstanding	—	—	—	—
Diluted	18,333,779	18,333,779	18,333,779	18,333,779
Per share earnings (loss):				
Basic	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Effect of dilutive stock options outstanding	—	—	—	—
Diluted	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)

For the quarters and the nine months ended September 30, 2006 and 2005, 891,738, 949,084, 584,411 and 656,897 options, respectively, were excluded from the calculation of diluted earnings per share because their assumed exercise would be anti-dilutive due to losses from continuing operations.

### Note 14-Subsequent Events

#### *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 the first nine months of 2007, Canron paid \$1.2 million in dividends to CIB Construction and CIB Construction paid \$1.2 million in dividends to CIB Marine.

#### *Regulatory Orders and Agreements*

In January 2007, the Cease and Desist Order at Central Illinois Bank was terminated and replaced with a Memorandum of Understanding. Among other items, the Memorandum requires Central Illinois Bank to maintain a minimum Tier 1 capital of 8% of total assets as calculated in accordance with Part 325 of the FDIC Rules and Regulations and to obtain regulatory approval prior to the purchase of any loan pools in excess of \$3.0 million.

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## **Table of Contents**

### ***Liquidity***

During 2006 and 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 and short-term borrowing availability from the Federal Home Loan Bank of Chicago. In the first quarter of 2007, the restriction requiring one of the subsidiary banks to pledge securities in order to have access to the federal reserve discount window was removed.

### ***FHLB Stock Investment***

In September, 2007, the FHLB Chicago filed a Form 8-K with the SEC regarding the receipt of a draft consent cease and desist order from its regulator, the Federal Housing Finance Board (“Finance Board”). The draft order includes a prohibition, unless otherwise approved by the Director of the Office of Supervision of the Finance Board (“OS Director”), of capital stock repurchase and redemptions by the FHLB from its members, including redemptions upon membership withdrawal or termination. The FHLB states that the draft order contemplates that the OS Director may approve proposed redemptions, provided that allowing the redemption would be consistent with maintaining the capital adequacy of the FHLB. The draft order also proposes that dividend declarations would be subject to the prior written approval of the OS Director. At both December 31, 2006 and September 30, 2007, CIB Marine had \$11.5 million in FHLB Chicago stock, of which \$0.6 million and \$1.7 million, respectively, was categorized as required.

### ***Loan Pool Purchase***

In February 2007, CIB Marine purchased a closed end pool of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation in the amount of \$48.2 million. The purchased pool included 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.

In the third quarter of 2007 CIB Marine increased the loss provision rates on the two home equity pools it purchased during 2006 and 2007, primarily due to the general deterioration in the condition of the housing markets and the housing finance markets.

### ***Branch Activities***

During the last three months of 2006, Central Illinois Bank sold its Rantoul and Springfield, Illinois branches. The net gain on the sale of the two branches was \$0.6 million. The total deposits of these sold branches as of December 31, 2005 were \$31.6 million. CIB Marine had 30 branches as of December 31, 2006 holding \$0.8 billion in deposits.

During the first nine months of 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 \$49.7 million in deposits at the time of sales. Additionally, CIB Marine closed the Henderson, Nevada; Sun City, Arizona; and Indianapolis (Fox Road), Indiana branches and received regulatory approval to close the Milwaukee, Wisconsin branch. At December 31, 2006, these four branches had total deposits of \$46.7 million. Deposits of closed branches are transferred to other CIB Marine branches.

### ***Goodwill***

The balance of CIB Marine’s goodwill at September 31, 2006 is a result of prior branch acquisitions and related to a branch that was sold in the first quarter of 2007. As a result of this branch sale CIB Marine had no goodwill at September 30, 2007.

### ***FDIC Deposit Insurance Premiums***

In October 2006, the FDIC Board of Directors approved a One-Time Assessment Credit. This credit, totaling

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## **Table of Contents**

\$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 three months of 2006 and during 2007, 110,490 and 102,632 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 November 2006, 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. In May 2007, 74,000 options were granted at an exercise price of \$4.10 per share. As of September 30, 2007, there were 1,146,689 options outstanding with a weighted average exercise price of \$7.89.

### ***Late Filing of Tax Returns***

CIB Marine did not file all required federal and state tax returns for calendar years 2004, 2005 and 2006 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. CIB Marine is in the process of completing the 2005 tax returns. Upon conclusion of the audit of the financial statements for 2006 and the filing of the related Form 10-K and Form 10-Q's with the SEC, CIB Marine intends to complete and file the 2006 tax returns. 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.

## **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 September 30, 2006 and results of operations for the quarter and nine months ended September 30, 2006. This discussion should be read together with the consolidated financial statements and accompanying notes contained in Part I, Item 1 of this Form 10-Q, as well as CIB Marine's Annual Report on Form 10-K for the year ended December 31, 2005.

### **FORWARD-LOOKING STATEMENTS**

CIB Marine has made statements in this quarterly report on Form 10-Q 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 Part I, 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 of this Form 10-Q.

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.

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## Table of Contents

### **Results of Operations**

#### *Overview*

During the first nine months of 2006, CIB Marine continued its focus on improving its credit quality and financial condition. In addition, CIB Marine allocated increased resources to business development as part of its strategic focus and sold or closed certain of its subsidiary bank branches. During the third quarter and nine months ended September 30, 2006, CIB Marine had net losses of \$0.4 million and \$8.0 million, respectively, compared to net losses of \$0.2 million and \$7.9 million during the same respective periods in 2005. Net loss includes the results of continuing and discontinued operations. Discontinued operations for 2006 and 2005 includes MICR, MSI and CIB Construction. Additionally, discontinued operations for the nine months ended September 30, 2005 includes a \$1.9 million charge for a tax exposure related to a subsidiary sold in 2004. During 2006, CIB Marine continued its wind down of the remaining business affairs of MICR, MSI and CIB Construction, including its subsidiary Canron which is in voluntary liquidation.

CIB Marine had a net loss of \$0.4 million and diluted loss per share of \$0.02 in the third quarter of 2006 compared to a net loss of \$0.2 million and diluted loss per share of \$0.01 in the third quarter of 2005. The \$0.2 million increase in net loss was due to results from continuing operations which had a \$0.8 million net loss during the third quarter of 2006 compared to a net income of \$1.8 million during the same period of 2005, while discontinued operations had a \$0.4 million net income for the third quarter of 2006 compared to a \$2.1 million net loss during the same period of 2005. The change in results from discontinued operations was due to income tax expense.

The \$2.7 million change in results from continuing operations for the third quarter of 2006 compared to the third quarter of 2005 was primarily due to a \$4.2 million decrease in the negative provision for credit losses and a \$2.2 million decrease in income tax benefits. These amounts were partially offset by a \$1.1 million net gain on the sale of deposits and property and equipment of two branches located in Illinois and a \$1.5 million decrease in compensation and employee benefits. The decrease in compensation and employee benefits resulted from the sales and closings of branches during 2005 and 2006 and an overall cost savings program initiated by CIB Marine in the second half of 2004.

CIB Marine had a net loss of \$8.0 million and diluted loss per share of \$0.44 for the nine months ended September 30, 2006 compared to a net loss of \$7.9 million and diluted loss per share of \$0.43 for the nine months ended September 30, 2005. Loss from continuing operations increased \$1.2 million from \$7.2 million for the nine months ended September 30, 2005 to \$8.5 million for the same period in 2006. Discontinued operations had \$0.4 million net income compared to a \$0.6 million net loss during the nine months ended September 30, 2006 and 2005, respectively. The \$1.1 million change in results from discontinued operations was due to a \$4.0 decrease in income tax expense, partially offset by a \$2.4 million decrease in recoveries of impairment losses recognized in prior periods. During the first nine months of 2006, discontinued operations included a \$0.4 million recovery of impairment losses recognized during prior periods compared to \$2.8 million of such recoveries during the same period of 2005.

The \$1.2 million increase in loss from continuing operations for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 was due to a \$2.0 million decrease in net interest income, a \$4.9 million decline in the negative provision for credit losses and a \$2.1 million decrease in income tax benefits. These amounts were partially offset by a \$2.0 million gain on the sale of deposits and fixed assets of four branches during 2006; a \$2.3 decrease in net loss on write down and sale of assets other than branches; and a \$4.6 million decrease in other noninterest expenses due to sales and closures of branches and cost savings programs implemented by CIB Marine. The decline in net interest income was primarily due to the average balances of interest-earning assets declining at a faster rate than interest-bearing liabilities and a 3 basis point decrease in the net interest rate spread which included the compounding effect of deferred interest payments on the junior subordinated debentures.

CIB Marine had 32 banking facilities at September 30, 2006 and 37 at December 31, 2005, and 297 full-time equivalent employees at September 30, 2006 compared to 359 at December 31, 2005.

## Table of Contents

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.

### Selected Consolidated Financial Data

#### TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	At or For the Quarter Ended September 30,		At or For the Nine Months Ended September 30,	
	2006	2005	2006	2005
(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>				
Interest and dividend income	\$ 15,952	\$ 14,947	\$ 45,336	\$ 45,028
Interest expense	9,975	8,817	28,168	25,833
Net interest income	5,977	6,130	17,168	19,195
Provision for credit losses	(1,079)	(5,238)	(3,364)	(8,281)
Net interest income after provision for credit losses	7,056	11,368	20,532	27,476
Noninterest income	1,536	789	3,358	2,439
Noninterest expense	9,354	12,434	32,537	39,444
Loss from continuing operations before income taxes	(762)	(277)	(8,647)	(9,529)
Income tax expense (benefit)	53	(2,113)	(178)	(2,270)
<b>Net income (loss) from continuing operations</b>	<b>(815)</b>	<b>1,836</b>	<b>(8,469)</b>	<b>(7,259)</b>
Discontinued operations:				
Pretax income from discontinued operations	332	51	619	3,524
Income tax expense (benefit)	(53)	2,102	178	4,159
Net income (loss) from discontinued operations	385	(2,051)	441	(635)
<b>Net loss</b>	<b>\$ (430)</b>	<b>\$ (215)</b>	<b>\$ (8,028)</b>	<b>\$ (7,894)</b>
<b>Common Share Data</b>				
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Discontinued operations	0.02	(0.11)	0.02	(0.03)
Net loss	\$ (0.02)	\$ (0.01)	\$ (0.44)	\$ (0.43)
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Discontinued operations	0.02	(0.11)	0.02	(0.03)
Net loss	\$ (0.02)	\$ (0.01)	\$ (0.44)	\$ (0.43)
Dividends	—	—	—	—
Book value per share	\$ 3.95	\$ 4.61	\$ 3.95	\$ 4.61
Weighted average shares outstanding-basic	18,333,779	18,333,779	18,333,779	18,333,779
Weighted average shares outstanding-diluted	18,333,779	18,333,779	18,333,779	18,333,779
<b>Financial Condition Data</b>				
Total assets	\$ 1,030,719	\$ 1,224,978	\$ 1,030,719	\$ 1,224,978
Loans	553,815	542,072	553,815	542,072
Allowance for loan losses	(22,109)	(24,948)	(22,109)	(24,948)
Securities	383,622	526,132	383,622	526,132
Deposits	752,154	939,296	752,154	939,296
Deposits of branches held for sale	75,325	44,271	75,325	44,271
Borrowings, including junior subordinated debentures	94,074	117,744	94,074	117,744
Stockholders' equity	72,480	84,490	72,480	84,490
<b>Financial Ratios and Other Data</b>				
Performance ratios:				
Net interest margin (1)	2.38%	2.05%	2.23%	2.06%
Net interest spread (2)	1.63	1.54	1.56	1.59
Noninterest income to average assets (3)	0.74	0.34	0.48	0.31
Noninterest expense to average assets	3.61	4.10	4.07	4.11
Efficiency ratio (4)	119.04	176.96	154.36	178.40
Loss on average assets (5)	(0.16)	(0.07)	(1.01)	(0.82)

Loss on average equity (6)	(2.41)	(1.00)	(14.77)	(12.12)
Asset quality ratios:				
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	4.25%	5.86%	4.25%	5.86%
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	2.29	2.84	2.29	2.84
Allowance for loan losses to total loans	3.99	4.60	3.99	4.60
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	93.99	78.58	93.99	78.58
Net recoveries annualized to average loans	(0.06)	(4.11)	(0.15)	(0.80)
Capital ratios:				
Total equity to total assets	7.03%	6.90%	7.03%	6.90%
Total risk-based capital ratio	20.15	20.45	20.15	20.45
Tier 1 risk-based capital ratio	13.82	14.97	13.82	14.97
Leverage capital ratio	9.48	9.21	9.48	9.21
Other data:				
Number of employees (full-time equivalent) (7)	297	398	297	398
Number of banking facilities	32	41	32	41

## Table of Contents

- (1) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets. In the future, CIB Marine does not expect to realize all the tax benefits associated with tax-exempt assets due to substantial losses and as of September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, the 2006 and 2005 interest income on tax-exempt earning assets has not been adjusted to reflect the tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.43% and 2.12% for the quarter ended and 2.29% and 2.55% for the nine months ended September 30, 2006 and 2005, respectively.
- (2) Net interest rate 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 of Canron and MICR which are manufacturing companies held for disposal. These companies had full-time equivalent employees of 2 in 2006 and 36 in 2005.

### CIB MARINE-CONTINUING OPERATIONS ONLY:

	At or For the Quarter Ended September 30,		At or For the Nine Months Ended September 30,	
	2006	2005	2006	2005
(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>				
Interest and dividend income	\$ 15,952	\$ 14,947	\$ 45,336	\$ 45,028
Interest expense	9,975	8,817	28,168	25,833
Net interest income	5,977	6,130	17,168	19,195
Provision for credit losses	(1,079)	(5,238)	(3,364)	(8,281)
Net interest income after provision for credit losses	7,056	11,368	20,532	27,476
Noninterest income	1,536	789	3,358	2,439
Noninterest expense	9,354	12,434	32,537	39,444
Loss from continuing operations before income taxes	(762)	(277)	(8,647)	(9,529)
Income tax expense (benefit)	53	(2,113)	(178)	(2,270)
<b>Net income (loss) from continuing operations</b>	<b>\$ (815)</b>	<b>\$ 1,836</b>	<b>\$ (8,469)</b>	<b>\$ (7,259)</b>
<b>Common Share Data</b>				
Basic earnings (loss) per share from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Diluted earnings (loss) per share from continuing operations	\$ (0.04)	\$ 0.10	\$ (0.46)	\$ (0.40)
Dividends	—	—	—	—
Book value per share	\$ 3.95	\$ 4.61	\$ 3.95	\$ 4.61
Weighted average shares outstanding- basic	18,333,779	18,333,779	18,333,779	18,333,779
Weighted average shares outstanding- diluted	18,333,779	18,333,779	18,333,779	18,333,779
<b>Financial Condition Data</b>				
Total assets	\$ 1,026,274	\$ 1,213,702	\$ 1,026,274	\$ 1,213,702
Loans	553,713	542,072	553,713	542,072
Allowance for loan losses	(22,109)	(24,948)	(22,109)	(24,948)
Securities	383,622	526,132	383,622	526,132
Deposits	752,154	939,296	752,154	939,296
Deposits of branches held for sale	75,325	44,271	75,325	44,271
Borrowings, including junior subordinated debentures	94,074	117,744	94,074	117,744
Stockholders' equity	72,480	84,490	72,480	84,490
<b>Financial Ratios and Other Data</b>				
Performance ratios:				
Net interest margin (1)	2.38%	2.05%	2.23%	2.06%
Net interest spread (2)	1.63	1.55	1.56	1.59
Noninterest income to average assets (3)	0.59	0.19	0.42	0.22
Noninterest expense to average assets	3.58	4.01	4.09	4.09
Efficiency ratio (4)	124.50	185.08	158.52	185.37
Income (loss) on average assets (5)	(0.31)	0.59	(1.06)	(0.75)

Income (loss) on average equity (6)	(4.57)	8.58	(15.59)	(11.15)
Asset quality ratios:				
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	4.25%	5.86%	4.25%	5.86%
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	2.30	2.86	2.30	2.86
Allowance for loan losses to total loans	3.99	4.60	3.99	4.60
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	93.99	78.58	93.99	78.58

## Table of Contents

	At or For the Quarter Ended September 30,		At or For the Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands, except share and per share data)			
Net recoveries annualized to average loans	(0.06)	(4.11)	(0.15)	(0.80)
Capital ratios:				
Total equity to total assets	7.06%	6.96%	7.06%	6.96%
Total risk-based capital ratio	20.15	20.67	20.15	20.67
Tier 1 risk-based capital ratio	13.82	15.14	13.82	15.14
Leverage capital ratio	9.48	9.21	9.48	9.21
Other data:				
Number of employees (full-time equivalent)	297	398	297	398
Number of banking facilities	32	41	32	41

- (1) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets. In the future, CIB Marine does not expect to realize all the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, the 2006 and 2005 interest income on tax-exempt earning assets has not been adjusted to reflect the tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.43% and 2.12% for the quarter ended and 2.29% and 2.55% for the nine months ended September 30, 2006 and 2005, respectively.
- (2) Net interest rate 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.

### **Net Interest Income**

The following tables set 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. In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses. Accordingly, interest income on tax-exempt loans and tax-exempt securities for 2006 and 2005 has not been adjusted to reflect the tax-equivalent basis. See the Income Tax discussion for additional information.

## Table of Contents

### TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Quarter Ended September 30,					
	2006			2005		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/ Paid	Average Yield/Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets</b>						
Securities:						
Taxable	\$ 383,932	\$ 4,658	4.85%	\$ 504,096	\$ 4,543	3.60%
Tax-exempt (1)	3,552	40	4.50	8,650	103	4.76
Total securities	387,484	4,698	4.85	512,746	4,646	3.62
Loans held for sale	56	1	7.08	5,640	80	5.63
Loans(2)(3):						
Commercial	52,756	937	7.05	98,139	1,367	5.53
Commercial real estate	418,154	7,775	7.38	431,505	7,434	6.84
Consumer	74,150	1,564	8.37	21,720	357	6.52
Total loans	545,060	10,276	7.48	551,364	9,158	6.59
Federal funds sold	69,059	979	5.62	119,120	1,064	3.54
Total interest-earning assets	1,001,659	15,954	6.33	1,188,870	14,948	5.00
<b>Noninterest-earning assets</b>						
Cash and due from banks	22,817			27,879		
Premises and equipment	12,389			15,205		
Allowance for loan losses	(22,455)			(23,881)		
Receivables from sale of stock	(151)			(771)		
Accrued interest receivable and other assets	23,038			23,065		
Total noninterest-earning assets	35,638			41,497		
Total assets	<u>\$1,037,297</u>			<u>\$1,230,367</u>		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities</b>						
Deposits:						
Interest-bearing demand deposits	\$ 39,756	\$ 103	1.03%	\$ 53,269	\$ 144	1.07%
Money market	192,651	2,095	4.31	203,557	1,312	2.56
Other savings deposits	21,400	54	1.00	32,748	86	1.04
Time deposits(4)	491,686	5,307	4.28	619,934	5,248	3.36
Total interest-bearing deposits	745,493	7,559	4.02	909,508	6,790	2.96
Borrowings-short-term	32,767	404	4.89	35,663	288	3.20
Borrowings-long-term (4)	2,913	37	5.04	7,250	92	5.03
Junior subordinated debentures	61,857	1,975	12.77	61,857	1,645	10.64
Total borrowed funds	97,537	2,416	9.89	104,770	2,025	7.72
Total interest-bearing liabilities	843,030	9,975	4.70	1,014,278	8,815	3.46
<b>Noninterest-bearing liabilities</b>						
Noninterest-bearing demand deposits	91,208			108,913		
Accrued interest and other liabilities	32,346			22,231		
Total noninterest-bearing liabilities	123,554			131,144		
Total liabilities	966,584			1,145,422		
Stockholders' equity	70,713			84,945		
Total liabilities and stockholders' equity	<u>\$1,037,297</u>			<u>\$1,230,367</u>		
<b>Net interest income and net interest rate spread (1)(5)</b>						
		\$ 5,979	1.63%		\$ 6,133	1.54%
<b>Net interest-earning assets</b>	<u>\$ 158,629</u>			<u>\$ 174,592</u>		
<b>Net interest margin (1)(6)</b>			2.38%			2.05%
<b>Ratio of average interest-earning</b>						

**assets to average interest-bearing  
liabilities**

1.19

1.17

- (1) In the future, CIB Marine may not realize all the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 are not presented on a tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.43% and 2.12%, respectively.
- (2) Loan balance totals include nonaccrual loans.
- (3) Interest earned on loans includes amortized loan fees of \$0.2 million for both quarters ended September 30, 2006 and 2005.
- (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 rate 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.

## Table of Contents

### TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Nine Months Ended September 30,					
	2006			2005		
	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets</b>						
Securities:						
Taxable	\$ 422,031	\$14,161	4.47%	\$ 464,133	\$11,649	3.35%
Tax-exempt (1)	3,834	129	4.49	12,397	451	4.85
Total securities	425,865	14,290	4.47	476,530	12,100	3.39
Loans held for sale	19	1	7.04	2,375	111	6.25
Loans (2)(3):						
Commercial	57,800	2,926	6.77	127,354	5,376	5.64
Commercial real estate	417,683	22,386	7.17	467,361	23,027	6.59
Consumer	43,575	2,534	7.77	23,007	1,133	6.58
Total loans	519,058	27,846	7.17	617,722	29,536	6.39
Federal funds sold	81,385	3,203	5.26	146,928	3,310	3.01
Total interest-earning assets	1,026,327	45,340	5.90	1,243,555	45,057	4.84
<b>Noninterest-earning assets</b>						
Cash and due from banks	23,483			29,173		
Premises and equipment	12,972			15,172		
Allowance for loan losses	(23,407)			(26,982)		
Receivables from sale of stock	(184)			(887)		
Accrued interest receivable and other assets	24,140			28,550		
Total noninterest-earning assets	37,004			45,026		
Total assets	<u>\$1,063,331</u>			<u>\$1,288,581</u>		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities</b>						
Deposits:						
Interest-bearing demand deposits	\$ 44,580	\$ 334	1.00%	\$ 57,110	\$ 503	1.18%
Money market	197,894	5,821	3.93	211,186	3,614	2.29
Other savings deposits	23,287	175	1.00	37,569	336	1.20
Time deposits (4)	511,120	15,177	3.97	666,505	15,816	3.17
Total interest-bearing deposits	776,881	21,507	3.70	972,370	20,269	2.79
Borrowings-short-term	22,516	728	4.32	21,350	463	2.90
Borrowings-long-term (4)	5,788	219	5.06	7,250	274	5.05
Junior subordinated debentures	61,857	5,714	12.32	61,857	4,854	10.46
Total borrowed funds	90,161	6,661	9.85	90,457	5,591	8.24
Total interest-bearing liabilities	867,042	28,168	4.34	1,062,827	25,860	3.25
<b>Noninterest-bearing liabilities</b>						
Noninterest-bearing demand deposits	93,544			114,771		
Accrued interest and other liabilities	30,092			23,903		
Total noninterest-bearing liabilities	123,636			138,674		
Total liabilities	990,678			1,201,501		
Stockholders' equity	72,653			87,080		
Total liabilities and stockholders' equity	<u>\$1,063,331</u>			<u>\$1,288,581</u>		
<b>Net interest income and net interest rate spread (1)(5)</b>						
		<u>\$17,172</u>	<u>1.56%</u>		<u>\$19,197</u>	<u>1.59%</u>
<b>Net interest-earning assets</b>	<u>\$ 159,285</u>			<u>\$ 180,728</u>		
<b>Net interest margin (1)(6)</b>			<u>2.23%</u>			<u>2.06%</u>

**Ratio of average interest-earning  
assets to average interest-bearing  
liabilities**

1.18

1.17

- 
- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 are not presented on a tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.29% and 2.55%, respectively.
  - (2) Loan balance totals include nonaccrual loans.
  - (3) Interest earned on loans includes amortized loan fees of \$0.4 million and \$0.7 million for the nine months ended September 30, 2006 and 2005, 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 rate 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.

## Table of Contents

### Reconciliation of net interest income

	Quarter ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
<b>Interest income reported in margin table (1)</b>	\$ 15,954	\$ 14,948	\$ 45,340	\$ 45,057
Interest income included in discontinued operations	(2)	(1)	(4)	(29)
Interest income as reported in consolidated statement of operations	15,952	14,947	45,336	45,028
<b>Interest expense reported in margin table</b>	9,975	8,815	28,168	25,860
Interest expense included in discontinued operations	—	2	—	(27)
Interest expense as reported in consolidated statement of operations	9,975	8,817	28,168	25,833
<b>Net interest income reported in margin table(1)</b>	5,979	6,133	17,172	19,197
Net discontinued operations	(2)	(3)	(4)	(2)
Net interest income, net of adjustments reported in consolidated statement of operations	<u>\$ 5,977</u>	<u>\$ 6,130</u>	<u>\$ 17,168</u>	<u>\$ 19,195</u>

- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 are not presented on a tax-equivalent basis.

## Table of Contents

### CIB MARINE-CONTINUING OPERATIONS ONLY:

	Quarter Ended September 30,					
	2006			2005		
	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets</b>						
Securities:						
Taxable	\$ 383,932	\$ 4,658	4.85%	\$ 504,096	\$ 4,543	3.60%
Tax-exempt (1)	3,552	40	4.50	8,650	103	4.76
Total securities	387,484	4,698	4.85	512,746	4,646	3.62
Loans held for sale	56	1	7.08	5,640	80	5.63
Loans(2)(3):						
Commercial	52,756	935	7.03	98,139	1,366	5.52
Commercial real estate	418,154	7,775	7.38	431,505	7,434	6.84
Consumer	74,150	1,564	8.37	21,720	357	6.52
Total loans	545,060	10,274	7.48	551,364	9,157	6.59
Federal funds sold	69,059	979	5.62	119,120	1,064	3.54
Total interest-earning assets	1,001,659	15,952	6.33	1,188,870	14,947	5.00
<b>Noninterest-earning assets</b>						
Cash and due from banks	22,817			27,879		
Premises and equipment(4)	12,389			15,205		
Allowance for loan losses	(22,455)			(23,881)		
Receivables from sale of stock	(151)			(771)		
Accrued interest receivable and other assets	23,038			23,065		
Total noninterest-earning assets	35,638			41,497		
Total assets of continuing operations	1,037,297			1,230,367		
Assets of companies held for disposal	—			—		
Total assets	<u>\$1,037,297</u>			<u>\$1,230,367</u>		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities</b>						
Deposits:						
Interest-bearing demand deposits	\$ 39,756	\$ 103	1.03%	\$ 53,269	\$ 144	1.07%
Money market	192,651	2,095	4.31	203,557	1,312	2.56
Other savings deposits	21,400	54	1.00	32,748	86	1.04
Time deposits (5)	491,686	5,307	4.28	619,934	5,248	3.36
Total interest-bearing deposits(4)	745,493	7,559	4.02	909,508	6,790	2.96
Borrowings-short-term	32,767	404	4.89	35,663	289	3.22
Borrowings-long-term (5)	2,913	37	5.04	7,250	92	5.03
Junior subordinated debentures	61,857	1,975	12.77	61,857	1,646	10.64
Total borrowed funds	97,537	2,416	9.89	104,770	2,027	7.73
Total interest-bearing liabilities	843,030	9,975	4.70	1,014,278	8,817	3.45
<b>Noninterest-bearing liabilities</b>						
Noninterest-bearing demand deposits(4)	91,208			108,913		
Accrued interest and other liabilities	32,346			22,231		
Total noninterest- bearing liabilities	123,554			131,144		
Total liabilities of continuing operations	966,584			1,145,422		
Liabilities of companies held for disposal	—			—		
Total liabilities	996,584			1,145,422		
Stockholders' equity	70,713			84,945		
Total liabilities and stockholders' equity	<u>\$1,037,297</u>			<u>\$1,230,367</u>		

<b>Net interest income and net interest rate spread(1)(6)</b>		<u>\$ 5,977</u>	<u>1.63%</u>		<u>\$ 6,130</u>	<u>1.55%</u>
<b>Net interest-earning assets</b>	<u>\$ 158,629</u>			<u>\$ 174,592</u>		
<b>Net interest margin (1)(7)</b>			<u>2.38%</u>			<u>2.05%</u>
<b>Ratio of average interest-earning assets to average interest-bearing liabilities</b>	<u>1.19</u>			<u>1.17</u>		

- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 are not presented on a tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.43% and 2.12%, respectively.
- (2) Loan balance totals include nonaccrual loans.
- (3) Interest earned on loans includes amortized loan fees of \$0.2 million for both quarters ended September 30, 2006 and 2005.
- (4) Includes fixed assets and deposits of branches held for sale or sold during 2006.
- (5) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.
- (6) Net interest rate spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.
- (7) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

## Table of Contents

### CIB MARINE-CONTINUING OPERATIONS ONLY:

	Nine Months Ended September 30,					
	2006			2005		
	Average Balance	Interest Earned/ Paid	Average Yield/ Cost	Average Balance	Interest Earned/ Paid	Average Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
<b>Interest-earning assets</b>						
Securities:						
Taxable	\$ 422,031	\$14,161	4.47%	\$ 464,133	\$11,649	3.35%
Tax-exempt (1)	3,834	129	4.49	12,397	451	4.85
Total securities	425,865	14,290	4.47	476,530	12,100	3.39
Loans held for sale	19	1	7.04	1,966	83	5.64
Loans(2)(3):						
Commercial	57,800	2,922	6.76	127,354	5,375	5.64
Commercial real estate	417,683	22,386	7.17	467,361	23,027	6.59
Consumer	43,575	2,534	7.77	23,007	1,133	6.58
Total loans	519,058	27,842	7.17	617,722	29,535	6.39
Federal funds sold	81,385	3,203	5.26	146,928	3,310	3.01
Total interest-earning assets	1,026,327	45,336	5.90	1,243,146	45,028	4.84
<b>Noninterest-earning assets</b>						
Cash and due from banks	23,483			29,173		
Premises and equipment(4)	12,972			15,172		
Allowance for loan losses	(23,407)			(26,982)		
Receivables from sale of stock	(184)			(887)		
Accrued interest receivable and other assets	24,140			28,550		
Total noninterest-earning assets	37,004			45,026		
Total assets of continuing operations	1,063,331			1,288,172		
Assets of companies held for disposal	—			409		
Total assets	<u>\$1,063,331</u>			<u>\$1,288,581</u>		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities</b>						
Deposits:						
Interest-bearing demand deposits	\$ 44,580	\$ 334	1.00%	\$ 57,110	\$ 503	1.18%
Money market	197,894	5,821	3.93	211,186	3,614	2.29
Other savings deposits	23,287	175	1.00	37,569	336	1.20
Time deposits(5)	511,120	15,177	3.97	666,505	15,816	3.17
Total interest-bearing deposits(4)	776,881	21,507	3.70	972,370	20,269	2.79
Borrowings-short-term	22,516	728	4.32	20,941	436	2.78
Borrowings-long-term (5)	5,788	219	5.06	7,250	274	5.05
Junior subordinated debentures	61,857	5,714	12.32	61,857	4,854	10.46
Total borrowed funds	90,161	6,661	9.85	90,048	5,564	8.24
Total interest-bearing liabilities	867,042	28,168	4.34	1,062,418	25,833	3.25
<b>Noninterest-bearing liabilities</b>						
Noninterest-bearing demand deposits(4)	93,544			114,771		
Accrued interest and other liabilities	30,092			23,903		
Total noninterest-bearing liabilities	123,636			138,674		
Total liabilities of continuing operations	990,678			1,201,092		
Liabilities of companies held for disposal	—			409		
Total liabilities	990,678			1,201,501		
Stockholders' equity	72,653			87,080		
Total liabilities and stockholders' equity	<u>\$1,063,331</u>			<u>\$1,288,581</u>		
<b>Net interest income and net interest</b>						

<b>rate spread(1)(6)</b>		<u>\$17,168</u>	<u>1.56%</u>	<u>\$19,195</u>	<u>1.59%</u>
<b>Net interest-earning assets</b>	<u>\$ 159,285</u>			<u>\$ 180,728</u>	
<b>Net interest margin (1)(7)</b>			<u>2.23%</u>		<u>2.06%</u>
<b>Ratio of average interest-earning assets to average interest-bearing liabilities</b>	<u>1.18</u>			<u>1.17</u>	

- 
- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 are not presented on a tax-equivalent basis. If 2006 and 2005 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.29% and 2.55%, respectively.
- (2) Loan balance totals include nonaccrual loans.
- (3) Interest earned on loans includes amortized loan fees of \$0.4 million and \$0.7 million for the nine months ended September 30, 2006 and 2005, respectively.
- (4) Includes fixed assets and deposits of branches held for sale or sold during 2006.
- (5) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.
- (6) Net interest rate spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.
- (7) 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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## Table of Contents

Net interest income decreased \$0.2 million, or 2.5%, from \$6.1 million for the third quarter of 2005 to \$6.0 million for the third quarter of 2006. Net interest income decreased \$2.0 million, or 10.6%, from \$19.2 million for the nine months ended September 30, 2005 to \$17.2 million for the nine months ended September 30, 2006. The decrease in net interest income was primarily volume driven as the average balance of interest-earning assets declined at a faster rate than the average balance of interest-bearing liabilities and a change in the mix of interest-earning assets. Average interest-earning assets decreased \$187.2 million and \$216.8 million, respectively, for the quarter and nine months ended September 30, 2006 compared to the same periods in 2005 while average interest-bearing liabilities declined \$171.2 million and \$195.4 million, respectively.

Total interest income increased \$1.0 million, or 6.7%, from \$14.9 million in the third quarter of 2005 to \$16.0 million in the third quarter of 2006. The increase was driven by a 133 basis increase on interest-earning assets, due primarily to the rising rate environment, offset by a \$187.2 million decrease in the average balance of interest-earning assets. The largest increase was in interest income on loans which increased by \$1.1 million, or 12.2%, from \$9.2 million during the third quarter of 2005 to \$10.3 million during the same period in 2006. The increase in loan interest income was primarily due to a 89 basis point increase in average yield resulting from the rising rate environment and the purchase during the second quarter of 2006 of a \$47.8 million fixed rate second lien home equity pool purchase with a weighted average yield of 9.5%.

Total interest income increased \$0.3 million, or 0.7%, from \$45.0 million for the nine months ended September 30, 2005 to \$45.3 million for the nine months ended September 30, 2006. The increase was due to a 106 basis point increase in the average yield of interest-earning assets, partially offset by a \$216.8 million decrease in the average balance of these assets. Interest income on securities increased \$2.2 million due to a 108 basis point increase in the average yield partly resulting from reinvesting the funds of lower yielding matured securities during a rising rate environment. The effect of the increased yield in securities was partially offset by a \$50.7 million decrease in the average balance of securities resulting from lower investing by CIB Marine to fund the decline in deposits. Interest income on loans declined \$1.7 million due to a \$98.7 million decrease in the average balance of loans outstanding, partially offset by a 78 basis point increase in the average yield on loans. The decrease in the average loans balance was due to a \$119.2 million decrease in commercial and commercial real estate loans due to the market conditions and limited lending personnel partially offset by a \$20.5 million increase in the average consumer loans outstanding. The increase in consumer loans resulted from the second quarter of 2006 purchase of a \$47.8 million fixed rate second lien home equity pool.

Total interest expense increased \$1.2 million, or 13.1%, from \$8.8 million in the third quarter of 2005 to \$10.0 million in the third quarter of 2006. This increase resulted from a 125 basis point increase in the average yield on interest-bearing liabilities, partially offset by a \$171.2 million decrease in the average balance of interest-bearing liabilities. The increase in the average yield resulted from the rising interest rate environment and the compounding effect of the deferred interest payments on the junior subordinated debentures. Interest expense on deposits, the largest component of interest expense, increased \$0.8 million, or 11.3% due to a 106 basis point increase in the average yield, partially offset by a \$164.0 decrease in the average balance of interest-bearing deposits resulting from branch sales, loss of deposit relationships associated with decreased commercial loans and less competitive pricing by CIB Marine. Interest expense on borrowings for the third quarter of 2006 compared to the same period in 2005 increased \$0.4 million primarily due to a higher yield in a rising interest rate environment and the compounding effect of interest payment deferrals on junior subordinated debentures.

For the nine-month period ended September 30, 2006, total interest expense increased \$2.3 million, or 9.0%, from \$25.8 million for the nine months ended September 30, 2005 to \$28.2 million in 2006. This increase was primarily the result of a 109 basis point increase in the average yield of interest-bearing liabilities, partially offset by a \$195.4 million decrease in the average balance of these liabilities. Interest expense on deposits, the largest component of interest expense, increased \$1.2 million due to a 91 basis point increase in the yield resulting from the rising rate environment. The effect of the increased yield on deposits was partially offset by a \$195.5 million decrease in the average balance of the interest-bearing deposits due to the sale of branches and less competitive pricing by CIB Marine. Interest expense on borrowings increased \$1.1 million primarily due to higher yields in a rising interest rate environment and the compounding effect of interest payment deferrals on junior subordinated debentures.

CIB Marine's net interest spread increased 8 basis points from 1.55% for the third quarter of 2005 to 1.63% for the third quarter of 2006. The net interest spread for the nine months ended September 30, 2006 compared to the

## Table of Contents

same period in 2005 declined by 3 basis points. The net interest margin increased 33 basis points from 2.05% for the third quarter of 2005 to 2.38% for the third quarter of 2006 and increased by 17 basis points from 2.06% for the nine months ended September 30, 2005 to 2.23% for the nine months ended September 30, 2006. The increase in the net interest margin was primarily due to rising yields in assets relative to rising yields in liabilities.

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:

### TOTAL COMPANY-CONTINUING AND DISCONTINUED OPERATIONS:

	Quarter Ended September 30, 2006 Compared to Quarter Ended September 30, 2005(2)				Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 (2)			
	Volume	Rate	Total	% Change	Volume	Rate	Total	% Change
(Dollars in thousands)								
<b>Interest Income</b>								
Securities-taxable	\$ (1,236)	\$ 1,351	\$ 115	2.53%	\$ (1,134)	\$ 3,646	\$ 2,512	21.56%
Securities-tax-exempt (1)	(57)	(6)	(63)	(61.17)	(290)	(32)	(322)	(71.40)
Total securities	(1,293)	1,345	52	1.12	(1,424)	3,614	2,190	18.10
Loans held for sale	(95)	16	(79)	(98.75)	(122)	12	(110)	(99.10)
Commercial	(741)	311	(430)	(31.46)	(3,365)	915	(2,450)	(45.57)
Commercial real estate	(235)	576	341	4.59	(2,566)	1,925	(641)	(2.78)
Consumer	1,080	127	1,207	338.10	1,165	236	1,401	123.65
Total loans (including fees)	104	1,014	1,118	12.21	(4,766)	3,076	(1,690)	(5.72)
Federal funds sold	(557)	472	(85)	(7.99)	(1,889)	1,782	(107)	(3.23)
Total interest income (1)	(1,841)	2,847	1,006	6.73	(8,201)	8,484	283	0.63
<b>Interest Expense</b>								
Interest-bearing demand								
deposits	(36)	(5)	(41)	(28.47)	(100)	(69)	(169)	(33.60)
Money market	(74)	857	783	59.68	(240)	2,447	2,207	61.07
Other savings deposits	(29)	(3)	(32)	(37.21)	(113)	(48)	(161)	(47.92)
Time deposits	(1,213)	1,272	59	1.12	(4,133)	3,494	(639)	(4.04)
Total deposits	(1,352)	2,121	769	11.33	(4,586)	5,824	1,238	6.11
Borrowings-short-term	(26)	142	116	40.28	27	238	265	57.24
Borrowings-long-term	(55)	—	(55)	(59.78)	(55)	—	(55)	(20.07)
Junior subordinated								
debentures	—	330	330	20.06	—	860	860	17.72
Total borrowed funds	(81)	472	391	19.31	(28)	1,098	1,070	19.14
Total interest expense	(1,433)	2,593	1,160	13.16	(4,614)	6,922	2,308	8.92
<b>Net interest income</b>								
<b>(1)</b>	<b>\$ (408)</b>	<b>\$ 254</b>	<b>\$ (154)</b>	<b>(2.51)%</b>	<b>\$ (3,587)</b>	<b>\$ 1,562</b>	<b>\$ (2,025)</b>	<b>(10.55)%</b>

- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 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 September 30, 2006 Compared to Quarter Ended September 30, 2005(2)				Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 (2)			
	Volume	Rate	Total	% Change	Volume	Rate	Total	% Change
(Dollars in thousands)								
<b>Interest Income</b>								
Securities-taxable	\$ (1,235)	\$ 1,350	\$ 115	2.53%	\$ (1,134)	\$ 3,646	\$ 2,512	21.56%
Securities-tax-exempt (1)	(57)	(6)	(63)	(61.17)	(290)	(32)	(322)	(71.40)
Total securities	(1,292)	1,344	52	1.12	(1,424)	3,614	2,190	18.10
Loans held for sale	(79)	—	(79)	(98.75)	(82)	—	(82)	(98.80)

Commercial	(740)	309	(431)	(31.55)	(3,361)	908	(2,453)	(45.64)
Commercial real estate	(235)	576	341	4.59	(2,565)	1,924	(641)	(2.78)
Consumer	1,080	127	1,207	338.10	1,165	236	1,401	123.65
Total loans (including fees)	105	1,012	1,117	12.20	(4,761)	3,068	(1,693)	(5.73)
Federal funds sold	(557)	472	(85)	(7.99)	(1,890)	1,783	(107)	(3.23)
Total interest income (1)	(1,823)	2,828	1,005	6.72	(8,157)	8,465	308	0.68
<b>Interest Expense</b>								
<b>Interest-bearing demand</b>								
deposits	(36)	(5)	(41)	(28.47)	(100)	(69)	(169)	(33.60)
Money market	(74)	857	783	59.68	(240)	2,447	2,207	61.07
Other savings deposits	(29)	(3)	(32)	(37.21)	(113)	(48)	(161)	(47.92)
Time deposits	(1,213)	1,272	59	1.12	(4,133)	3,494	(639)	(4.04)
Total deposits	(1,352)	2,121	769	11.33	(4,586)	5,824	1,238	6.11
Borrowings-short-term	(25)	139	114	39.31	35	257	292	66.97
Borrowings-long-term	(55)	—	(55)	(59.78)	(55)	—	(55)	(20.07)
<b>Junior subordinated</b>								
debentures	—	330	330	20.06	—	860	860	17.72
Total borrowed funds	(80)	469	389	19.19	(20)	1,117	1,097	19.72
Total interest expense	(1,432)	2,590	1,158	13.13	(4,606)	6,941	2,335	9.04
<b>Net interest income</b>								
(1)	\$ (391)	\$ 238	\$ (153)	(2.50)%	\$ (3,551)	\$ 1,524	\$ (2,027)	(10.56)%

- (1) In the future, CIB Marine may not realize all of the tax benefits associated with tax-exempt assets due to substantial losses and at September 30, 2006 and 2005 no U.S. federal or state loss carryback potential remains. Accordingly, 2006 and 2005 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.

## Table of Contents

### 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 \$1.1 million for the third quarter of 2006, compared to a negative \$5.2 million for the same period of 2005. For the nine-month period ended September 30, 2006, the provision for credit losses was a negative \$3.4 million, compared to a negative \$8.3 million for the same period of 2005. The change in the provision was primarily due to greater recoveries during 2005 compared to 2006 and an increase in the loan portfolio at September 30, 2006 compared to September 30, 2005.

### Noninterest Income

The following table presents the significant components of noninterest income:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
Loan fees	\$ 17	\$ 112	\$ 136	\$ 334
Deposit service charges	256	302	797	870
Other service fees	48	53	156	581
Other income	121	121	248	299
Net gain on sale of assets	1,094	—	2,021	—
Gain on sale of investment securities, net	—	201	—	355
	<u>\$ 1,536</u>	<u>\$ 789</u>	<u>\$ 3,358</u>	<u>\$ 2,439</u>

Noninterest income increased \$0.7 million for the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005. The increase was due to a \$1.1 million net gain on the sale of the deposits and property and equipment of two branches during the third quarter of 2006 partially offset by a \$0.2 million gain on sale of securities during the third quarter of 2005 compared to none in 2006. Noninterest income increased \$0.9 million for the nine months ended September 30, 2006 compared to September 30, 2005. The increase was due to a \$2.0 million net gain on the sale of the deposits and property and equipment of four branches during the nine months ended September 30, 2006 partially offset by a \$0.4 million gain on sale of securities during the nine months ended September 30, 2005 compared to none in 2006. Additionally, other service fees for 2005 were \$0.4 million greater than 2006 due to processing fees CIB Marine received from CIB-Chicago subsequent to its sale of CIB-Chicago to a nonaffiliated bank.

### Noninterest Expense

The following table presents the significant components of noninterest expense:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
Compensation and employee benefits	\$ 5,005	\$ 6,528	\$ 16,108	\$ 20,191
Equipment	764	1,044	2,580	3,008
Occupancy and premises	798	887	2,502	2,833
Professional services	1,079	767	2,951	2,595
Impairment loss on investment securities	—	191	1,134	1,353
Write down and losses on assets	—	426	—	2,124
<b>Other expense:</b>				
Payroll and other processing charges	26	34	75	95
Correspondent bank charges	66	72	198	202
Advertising/marketing	181	336	507	843
Communications	345	331	1,033	993
Supplies and printing	91	164	273	461
Shipping and handling	120	182	398	556
Collection expense	2	100	22	221
FDIC and state assessments	330	401	990	1,415
Recording and filing fees	29	56	133	151
Foreclosed property	(2)	32	6	35
Other expense	520	883	3,627	2,368
Total other expense	<u>1,708</u>	<u>2,591</u>	<u>7,262</u>	<u>7,340</u>

Total noninterest expense

\$ 9,354

\$ 12,434

\$ 32,537

\$ 39,444

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## Table of Contents

Total noninterest expense decreased \$3.1 million, or 24.8%, during the third quarter of 2005 compared to the third quarter of 2006. The decrease was primarily the result of the following:

- Compensation and employee benefits expense decreased \$1.5 million, or 23.3%, from \$6.5 million for the third quarter of 2005, to \$5.0 million for the third quarter of 2006. The decrease is primarily due to an overall cost savings program initiated by CIB Marine in the second half of 2004, which included a reduction in force program, restrictions on hiring and tight expense controls. Additionally, in the fourth quarter of 2005, CIB Marine closed three branches and sold one, and in the first nine months of 2006, CIB Marine sold four branches and closed one.
- Write down and losses on assets decreased \$0.4 million. During the third quarter of 2005, CIB Marine recognized \$0.4 million in write down and losses on assets, mainly due to a \$0.2 million loss on the sale of loans and \$0.2 million loss on the sale of foreclosed property
- Impairment loss on investment securities decreased \$0.2 million. 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 September 30, 2005. Accordingly, CIB Marine realized a \$0.2 million other-than-temporary loss on these certain securities during the third quarter of 2005. There were no impairment losses on securities during the third quarter of 2006.

Total noninterest expense decreased \$6.9 million, or 17.5%, from \$39.4 million for the nine months ended September 30, 2005 to \$32.5 million for the nine months ended September 30, 2006. The decrease was primarily due to the following:

- Compensation and employee benefits expense decreased \$4.1 million, or 20.2%, from \$20.2 million for the nine months ended September 30, 2005, to \$16.1 million for the same period in 2006. The decrease is primarily due to an overall cost savings program initiated by CIB Marine in the second half of 2004 and the sales and closings of certain branches during the last quarter of 2005 and the first nine months of 2006.
- Net write down and losses on assets decreased \$2.1 million. During the nine months ended September 30, 2005, CIB Marine recognized \$2.1 million in write down and losses on assets. The majority of such losses for the nine months ended September 30, 2005 related to a \$1.7 million loss on a limited number of commercial real estate and commercial construction loans offered for sale during the second quarter of 2005 as part of a loan work-out strategy and sold during the third quarter of 2005.
- Impairment loss on securities decreased \$0.2 million. 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 September 30, 2006 and 2005. Accordingly, CIB Marine realized a \$1.1 million and a \$1.3 million other-than-temporary loss on these certain securities during the first nine months of 2006 and 2005, respectively.
- Other noninterest expense decreased \$0.1 million from \$7.4 million during 2005 to \$7.3 million during 2006. Included in noninterest expense is a \$1.8 million contingent liability expense related to the settlement of the John C. Hadley and Mary Lydia Hadley litigation in the first quarter of 2007. See Item 1-Legal Proceedings in Part II of this Form 10-Q for further information regarding this litigation. Offsetting the 2006 settlement expense is a combined \$0.7 million decrease in advertising, supplies, shipping and handling due to management initiatives and closing/sale of branches; a \$0.4 million decrease in FDIC and state assessments; a \$0.2 million decrease in collection expense; and a \$0.5 million decrease in other expenses.

## *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 and that liability remains at September 30, 2006.

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## **Table of Contents**

Additionally, in 2005 Canron had a net reduction in prior year exposure items of \$0.4 million related to certain individually insignificant items.

### **Financial Condition**

#### ***Overview***

During the first nine months of 2006, CIB Marine continued its focus on improving its credit quality and financial condition. In addition, CIB Marine allocated increased resources to business development as part of its strategic focus and sold or closed certain of its subsidiary bank branches. At September 30, 2006, CIB Marine had for sale the deposits and property and equipment of four branches. Two of the branches were located in Illinois and two in Wisconsin. At September 30, 2006, CIB Marine had total assets of \$1.0 billion, a \$107.7 million or 9.5% decrease, from \$1.1 billion at December 31, 2005. The majority of the asset decrease occurred in investment securities which decreased by \$109.8 million mainly in response to the decline in overall deposits resulting from branch sales and a less aggressive pricing strategy by CIB Marine. This decrease was partially offset by a \$40.9 million increase in net loans driven by an increase in home equity loans and a \$23.7 million increase in commercial real estate construction loans. Home equity loans increased \$49.4 million, primarily due to the purchase of a \$47.8 million pool of fixed rate second lien home equity loans in the second quarter of 2006, while commercial and commercial real estate loans decreased \$32.2 million resulting from market conditions and limited lending personnel.

#### ***Securities***

Total securities at September 30, 2006 decreased \$109.8 million, or 22.3%, compared to total securities at December 31, 2005. The ratio of total securities to total assets was 37.2% at September 30, 2006, compared to 43.3% at December 31, 2005. The decrease was due to CIB Marine's liquidity risk management strategies in response to reduced deposits resulting from branch sales and less competitive pricing by CIB Marine.

The net unrealized loss on available for sale securities was \$2.3 million at September 30, 2006, compared to \$3.4 million at December 31, 2005.

As members of the Federal Reserve System and the Federal Home Loan Bank, certain of CIB Marine's subsidiary banks are required to maintain minimum amounts of Federal Reserve stock and Federal Home Loan Bank stock as required by those institutions. These securities are "restricted" in that they are not publicly traded and can only be owned by members of the institutions. 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 borrowing. 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 \$9.7 million during the first nine months of 2006. In September, 2007, the FHLB Chicago notified its members that it had received a draft consent cease and desist order from its regulator which could impact CIB Marine's ability to sell its remaining voluntary stock investment in FHLB Chicago. The draft cease and desist order the FHLB Chicago received includes a prohibition of capital stock repurchase and redemptions by the FHLB-Chicago from its members unless otherwise approved by its regulators. See the subsequent events discussion for further information on the draft of the consent cease and desist order the FHLB Chicago received. As of September 30, 2006, CIB Marine had \$16.1 million in FHLB Chicago stock, of which \$0.9 million was categorized as required

#### ***Loans***

Loans, net of the allowance for loan losses, represented 51.6% and 43.1% of CIB Marine's total assets at September 30, 2006 and December 31, 2005, respectively. Net loans increased \$40.9 million from \$490.7 million at December 31, 2005 to \$531.6 million at September 30, 2006. The majority of the increase was due to the purchase of a \$47.8 million pool of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation. The purchased pool consisted of 989 loans 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

## Table of Contents

39% and FICO score of 713. Additionally, commercial real estate construction loans increased a total of \$23.7 million while commercial and commercial real estate decreased by a combined total of \$32.2 million.

### Credit Concentrations

At September 30, 2006, CIB Marine had no secured borrowing relationships to one borrower or a related group of borrowers that exceeded 25.0% of stockholders' equity. At December 31, 2005, CIB Marine had one borrowing relationship that exceeded 25% of stockholders equity. At December 31, 2005, the total outstanding commitments on the one borrowing relationship exceeding 25% of stockholders' equity, including lines of credit not fully drawn, were 25.1% of equity and 3.9% of total loans. The principal drawn and outstanding on this one relationship at December 31, 2005 was \$12.6 million. At September 30, 2006, the total outstanding commitments on the December 31, 2005 borrowing relationship were 17.0% of equity and the principal drawn and outstanding was paid down to \$2.3 million.

At September 30, 2006, CIB Marine also had credit relationships within seven industries or industry groups that exceeded 25% of its stockholders' equity:

INDUSTRY	September 30, 2006			December 31, 2005		
	Outstanding Balance	% of Loans	% of Stockholders' Equity	Outstanding Balance	% of Loans	% of Stockholders' Equity
	(Dollars in millions)					
Commercial Real Estate Developers	\$150.2	27%	207%	\$181.8	35%	230%
Residential Real Estate Developers	106.9	19	148	73.2	14	93
Motel and Hotel	49.5	9	68	50.4	10	64
Nursing/Convalescent Home	30.8	6	43	35.4	7	45
Health Care Facilities	21.4	4	30	22.9	4	29
Retail Trade	24.2	4	33	25.4	5	32
Manufacturing	18.2	3	25	24.6	5	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 September 30, 2006 the allowance for loan losses was \$22.1 million, or 4.0% of total loans, compared to \$24.9 million, or 4.8% of total loans at December 31, 2005. The decrease in the allowance was primarily due to the improved credit quality of the portfolio and the change in the mix of the portfolio. 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 third quarter of 2006 were \$3 thousand, while recoveries were \$0.1 million, compared to \$0.4 million and \$6.1 million, respectively, for the same period of 2005. During the first nine months, total charge-offs for 2006 and 2005 were \$0.3 million and \$3.8 million, respectively, while total recoveries were \$0.9 million and \$7.5 million, respectively.

The ratio of the allowance to nonaccrual, restructured and loans 90 days or more past due and still accruing, was 94.0% at September 30, 2006 compared to 59.1% at December 31, 2005. The increase in this ratio was due to a decline in the amount of individual loans classified as nonaccrual, restructured or 90 days or more past due and still accruing at September 30, 2006 compared to December 31, 2005. 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.

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

## Table of Contents

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
<b>Balance at beginning of period</b>	\$ 23,104	\$ 24,470	\$ 24,882	\$ 29,551
<b>Loans charged-off</b>				
Commercial	(1)	(400)	(62)	(1,362)
Commercial real estate	—	—	(192)	(1,944)
Commercial real estate construction	—	—	—	(479)
Residential real estate	—	—	—	(49)
Consumer	(2)	(2)	(7)	(11)
<b>Total loans charged-off</b>	(3)	(402)	(261)	(3,845)
<b>Recoveries of loans charged-off</b>				
Commercial	83	4,701	596	5,789
Commercial real estate	—	1,415	244	1,701
Commercial real estate construction	—	—	—	—
Residential real estate	—	—	—	23
Consumer	3	2	12	10
<b>Total loan recoveries</b>	86	6,118	852	7,523
<b>Net loans recovered</b>	83	5,716	591	3,678
Provision for loan losses	(1,079)	(5,238)	(3,364)	(8,281)
<b>Ending balance</b>	<u>\$ 22,109</u>	<u>\$ 24,948</u>	<u>\$ 22,109</u>	<u>\$ 24,948</u>
Total loans:				
Total company	\$ 553,815	\$ 542,072	\$ 553,815	\$ 542,072
Loans in assets of companies held for disposal	(102)	—	(102)	—
Total loans	<u>\$ 553,713</u>	<u>\$ 542,072</u>	<u>\$ 553,713</u>	<u>\$ 542,072</u>
Average total loans	545,060	551,364	519,058	617,722
<b>Ratios</b>				
Allowance for loan losses to total loans	3.99%	4.60%	3.99%	4.60%
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing	93.99	78.58	93.99	78.58
Net charge-offs (recoveries) annualized to average total loans:				
Commercial	(0.62)	(17.39)	(1.24)	(4.65)
Commercial real estate	—	(1.30)	(0.02)	0.21
Consumer	(0.01)	—	(0.02)	0.16
Total loans	(0.06)	(4.11)	(0.15)	(0.80)
Ratio of recoveries to loans charged-off	2,866.67	1,521.89	326.44	195.66

### ***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:

## Table of Contents

	September 30, 2006	December 31, 2005	September 30, 2005
	(Dollars in thousands)		
<b>Nonperforming Assets</b>			
Nonaccrual loans:			
Commercial	\$ 4,136	\$ 6,426	\$ 6,860
Commercial real estate	16,524	21,148	21,087
Commercial real estate construction	242	1,149	1,163
Residential real estate	429	379	336
Home equity	—	—	—
Consumer	1	3	2
Total nonaccrual loans	21,331	29,105	29,448
Foreclosed properties	104	2,931	2,984
Restructured loans	—	1,486	1,499
Total nonperforming assets	21,435	33,522	33,931
Foreclosed properties included in assets of companies held for disposal	—	—	(12)
Total nonperforming assets, excluding assets of companies held for disposal	<u>\$ 21,435</u>	<u>\$ 33,522</u>	<u>\$ 33,919</u>
<b>Loans 90 Days or More Past Due and Still Accruing</b>			
Commercial	\$ 687	\$ 589	\$ 363
Commercial real estate	1,399	2,962	439
Commercial real estate construction	—	7,991	—
Residential real estate	106	—	—
Home equity	—	—	—
Consumer	—	—	—
Loans 90 days or more past due and still accruing	2,192	11,542	802
Allowance for loan losses	\$ 22,109	\$ 24,882	\$ 24,948
Total loans:			
Total company	\$ 553,815	\$ 515,544	\$ 542,072
Loans included in assets of companies held for disposal	(102)	—	—
Total loans	<u>\$ 553,713</u>	<u>\$ 515,544</u>	<u>\$ 542,072</u>
Total Assets:			
Total company	\$ 1,030,719	\$ 1,138,428	\$ 1,224,978
Assets of companies held for disposal (1)	(4,445)	(5,913)	(11,276)
Net	<u>\$ 1,026,274</u>	<u>\$ 1,132,515</u>	<u>\$ 1,213,702</u>
<b>Ratios: Total Company-Continuing and Discontinued Operations:</b>			
Nonaccrual loans to total loans	3.85%	5.65%	5.43%
Foreclosed properties to total assets	0.01	0.26	0.24
Nonperforming assets to total assets	2.08	2.94	2.77
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	4.25	8.17	5.86
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	2.29	3.96	2.84
<b>Ratios: Continuing Operations only (excludes assets of companies held for disposal):</b>			
Nonaccrual loans to total loans	3.85%	5.65%	5.43%
Foreclosed properties to total assets	0.01	0.26	0.24
Nonperforming assets to total assets	2.09	2.96	2.79
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans	4.25	8.17	5.86
Nonperforming assets and loans 90 days or more past due and still accruing to total assets	2.30	3.98	2.86

Nonaccrual loans decreased \$7.8 million, or 26.7%, from \$29.1 million at December 31, 2005 to \$21.3 million at September 30, 2006 primarily due to payments during the first nine months of 2006. The ratio of nonaccrual loans to total loans was 3.85% at September 30, 2006 and 5.65% at December 31, 2005.

At September 30, 2006, CIB Marine had six borrowing relationships (loans to one borrower or a group of borrowers) that accounted for \$17.7 million, or 82.5%, of nonaccrual loans as of September 30, 2006 and consisted of the following:

- Commercial real estate loans to a borrower totaling \$10.8 million secured by first mortgages on two commercial properties. At September 30, 2006, specific reserves of \$5.3 million were allocated to this borrowing relationship.
- Commercial real estate loans totaling \$2.0 million to a borrower secured by first mortgages on three commercial warehouse properties. As of September 30, 2006, no specific reserves were allocated to this relationship.

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## Table of Contents

- Commercial and commercial real estate loans totaling \$2.0 million to related borrowers secured by business assets and first mortgages on three commercial properties. At September 30, 2006, specific reserves of \$0.9 million were allocated to this relationship.
- Commercial and commercial real estate loans totaling \$1.1 million to a borrower secured by all business assets and a first mortgage on two commercial real estate properties. As of September 30, 2006, no specific reserves were allocated to this relationship.
- Commercial real estate loans to related borrowers in the total amount of \$0.9 million and secured by a first mortgage on commercial property. As of September 30, 2006, no specific reserves were allocated to this relationship.
- Commercial loan in the amount of \$0.8 million to a borrower secured by a junior mortgage on residential property. At September 30, 2006, \$0.8 million in specific reserves were assigned to this relationship.

While CIB Marine believes that the value of the collateral securing the above nonaccrual loans approximates the net book value of the loans, CIB Marine cannot provide assurances that the value will be maintained or that there will be no further losses with respect to these loans.

Foreclosed properties were \$0.1 million at September 30, 2006 and consisted of two properties compared to \$2.9 million at December 31, 2005 and five properties. All foreclosed properties were held for sale. During the first nine months of 2006, CIB Marine acquired one property and sold four foreclosed properties which had a combined carrying value of \$2.8 million at December 31, 2005. CIB Marine recognized a \$0.3 million net loss on the sale of these four properties. This loss was partially offset by a \$0.4 million recovery during the first quarter of 2006 resulting from settlement of litigation on a property sold in 2003. At September 30, 2006, one property with a carrying value of \$0.1 million accounted for the majority of the balance of foreclosed properties and consisted of an industrial office/warehouse property located in Illinois that was acquired in the third quarter of 2005.

There were no restructured loans at December 31, 2006. At December 31, 2005, there was one restructured commercial real estate loan with a balance of \$1.5 million. This loan matured in the first quarter of 2006 and at September 30, 2006, it was classified as 90 days or more past due and still accruing interest.

Loans 90 days or more past due and still accruing interest are loans which are delinquent with respect to the contractual payment terms of principal and/or interest but which management believes all contractual principal and interest amounts due will be collected. CIB Marine had \$2.2 million in loans that were 90 days or more past due and still accruing at September 30, 2006 compared to \$11.5 million at December 31, 2005. The decrease in loans classified as 90 days or more past due and still accruing at September 30, 2006 compared to December 31, 2005 was primarily due to payoffs and loans being brought current. One borrowing relationship within this category had a balance in excess of \$1.0 million and accounted for \$1.4 million or 63.8% of the total loans 90 days or more past due and still accruing at September 30, 2006. The loan in this borrowing relationship was secured by a first mortgage on a commercial building.

The ratio of nonperforming assets and loans 90 days or more past due and still accruing to total assets was 2.30% at September 30, 2006, compared to 3.98% at December 31, 2005.

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 \$7.9 million from \$28.9 million at December 31, 2005 to \$21.0 million at September 30, 2006. The decrease in impaired loans was primarily due to payments. Large groups of smaller balance homogeneous loans are

## Table of Contents

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:

	September 30, 2006	December 31, 2005	September 30, 2005
	(Dollars in thousands)		
Impaired loans without a specific allowance	\$ 6,120	\$ 10,511	\$ 10,623
Impaired loans with a specific allowance	14,840	18,349	18,629
Total impaired loans	20,961	28,860	29,252
Specific allowance related to impaired loans	\$ 7,785	\$ 8,562	\$ 8,630

### Companies Held For Disposal

At both September 30, 2006 and December 31, 2005, assets and liabilities of companies held for disposal, as shown on the consolidated balance sheets, are comprised of CIB Construction, MICR, MSI and a \$1.9 million tax exposure liability related to a subsidiary sold in 2004. MICR and Canron were acquired in full or partial satisfaction of loans. Net income or loss from these companies is included in net income or loss from discontinued operations.

#### Assets and liabilities of companies held for disposal

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Assets of companies held for disposal:		
CIB Construction (1)	\$ 3,442	\$ 5,165
MICR (1)	296	595
MSI	780	806
Other (2)	(73)	(653)
Total assets of companies held for disposal	<u>\$ 4,445</u>	<u>\$ 5,913</u>
Liabilities of companies held for disposal:		
CIB Construction (1)	\$ 4,800	\$ 5,161
MICR (1)	297	491
MSI	702	1,901
Other (2)	1,490	763
Total liabilities of companies held for disposal	<u>\$ 7,289</u>	<u>\$ 8,316</u>

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

#### CIB Construction (includes Canron)

During the first nine months of 2006, Canron continued 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 nine months ended September 30, 2006 and 2005 CIB Marine recognized a \$0.4 million and \$2.7 million, respectively, recovery of impairment losses recognized in prior periods. The recovery is included in discontinued operations on the consolidated statement of operations.

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

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Assets:		
Cash on deposit at CIB Marine	\$ 50	\$ 626
Accounts receivable	551	1,572
Other assets	2,841	2,967
Total assets	<u>\$ 3,442</u>	<u>\$ 5,165</u>

Liabilities and stockholder's equity:

Income tax payable	\$	3,022	\$	3,106
Other liabilities		<u>1,778</u>		<u>2,055</u>
Total liabilities		4,800		5,161
Stockholder's equity		<u>(1,358)</u>		<u>4</u>
Total liabilities and stockholder's equity	\$	<u>3,442</u>	\$	<u>5,165</u>

## Table of Contents

### **MICR**

During the first nine months of 2006, CIB Marine continued to wind down the business affairs of MICR. The operations and substantially all the assets of MICR were sold in the fourth quarter of 2005, and the company's name was changed to Everett Tech, Inc.

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
<b>Assets:</b>		
Cash on deposit at non-affiliates	\$ —	\$ 273
Income tax receivable	127	122
Other assets	169	200
Total assets	<u>\$ 296</u>	<u>\$ 595</u>
<b>Liabilities and stockholder's equity:</b>		
Liabilities	\$ 297	\$ 491
Stockholder's equity	(1)	104
Total liabilities and stockholder's equity	<u>\$ 296</u>	<u>\$ 595</u>

### **MSI**

During the first nine months of 2006, CIB Marine continued to wind down the remaining affairs of MSI. The operations and substantially all the assets of MSI were sold during the third quarter of 2004. MSI has incurred certain liabilities including repurchase obligations relative to certain mortgage loans as a result of external fraud and/or documentation issues.

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
	(Dollars in thousands)	
<b>Assets:</b>		
Cash on deposit at CIB Marine	\$ 22	\$ 24
Net loans	102	105
Income tax receivable	655	633
Other assets	1	44
Total assets	<u>\$ 780</u>	<u>\$ 806</u>
<b>Liabilities and stockholder's equity:</b>		
Loans payable to CIB Marine	\$ 104	\$ 829
Other liabilities	598	1,072
Total liabilities	702	1,901
Stockholder's equity	78	(1,095)
Total liabilities and stockholder's equity	<u>\$ 780</u>	<u>\$ 806</u>

### **Assets and Deposits of Branches Held For Sale**

At September 30, 2006, two of CIB Marine's subsidiary banks had for sale the deposits and certain property and equipment of four of their branches. Two of the branches are located in Illinois and two in Wisconsin. At September 30, 2006, the total deposits of these four branches was \$75.3 million and the total property and equipment net of accumulated depreciation was \$0.4 million. The property, equipment and deposits of these four branches are included in assets and deposits held for sale at September 30, 2006. The property, equipment and deposits of one of these four branches were also included in assets and deposits held for sale at December 31, 2005.

During the nine months ended September 30, 2006, certain of CIB Marine's subsidiary banks sold the deposits and certain assets of four of their branches and recognized a total net pretax gain of \$2.0 million. The gain on the sales of the branches is included in net gain on sale of assets. Two of the four sold branches were located in Illinois, one in Wisconsin and one in Nebraska. At the date of the sales, the collective deposits and net property and

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## **Table of Contents**

equipment of these sold branches was \$42.2 million and \$0.7 million respectively. Goodwill of \$0.2 million was allocated to the Wisconsin branch. The property, equipment and deposits of these branches were included in assets and deposits held for sale as of December 31, 2005. Additionally, during the third quarter of 2006, CIB Marine sold a former branch building located in Bloomington, Illinois at no gain or loss.

### ***Deposit Liabilities***

Total deposits decreased \$115.5 million, or 13.3%, from \$867.7 million at December 31, 2005 to \$752.2 million at September 30, 2006. The decrease in deposits was due to branch sales during 2005 and 2006, transfer of deposits to deposits held for sale at September 30, 2006, less competitive rate setting practices adopted by CIB Marine for interest bearing deposits, and a decline in deposit relationships associated with the decrease in commercial loans. The percentage of time deposits to total deposits was 58.6% at September 30, 2006 and 57.5% at December 31, 2005. These percentages reflect CIB Marine's reliance on time deposits as a primary source of funding. Time deposits of \$100,000 or more, excluding deposits of branches held for sale, were \$123.1 million, or 27.9% of total time deposits at September 30, 2006 compared to \$122.5 million or 24.6% at December 31, 2005. 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, excluding deposits of branches held for sale, were \$48.9 million, or 11.1% of total time deposits at September 30, 2006 and \$37.3 million, or 7.5% of total time deposits at December 31, 2005.

### ***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 were \$94.1 million at both September 30, 2006 and December 31, 2005. Short-term borrowings increased by \$5.2 million and long-term borrowings decreased by \$5.2 million.

### ***Other Liabilities***

Other liabilities increased \$1.6 million from \$5.2 million at December 31, 2005 to \$6.8 million at September 30, 2006. The increase was primarily due to a \$1.8 million contingent liability recorded in the first quarter of 2006. The contingent liability related to the settlement of the John C. Hadley and Mary Lydia Hadley litigation in the first quarter of 2007. See Item 1-Legal Proceedings in Part II of this Form 10-Q for further information regarding this litigation.

### ***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 banks' 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 September 30, 2006, pursuant to FDIC regulations in 12 C.F.R. Part 325, Marine-Wisconsin and Citrus Bank were classified as well capitalized and Central Illinois Bank was categorized as adequately capitalized. While Central Illinois Bank met the capital ratio criteria of a well capitalized bank at September 30, 2006, it was subject to

## Table of Contents

a cease and desist order 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.

At September 30, 2006 and 2005, CIB Marine was subject to a Written Agreement (“Agreement”) it entered into with the Federal Reserve Bank in the second quarter of 2004; Central Illinois Bank was subject to a Cease and Desist Order (“Order”) it consented to with its banking regulatory authorities in the second quarter of 2004; and Marine-Wisconsin was subject to a Memorandum of Understanding (“Memorandum”) which was entered into in March 2005 with its banking regulators. Additionally, at December 31, 2005, Citrus Bank was subject to a Written Agreement (“Citrus Agreement”) it entered into with the Office of the Comptroller of the Currency in the third quarter of 2004; and CIB-Indiana was subject to a Memorandum of Understanding. The Citrus Agreement was terminated in September 2006 and CIB-Indiana was merged into Marine-Wisconsin in August 2006. Among other items, the Agreement, Order and Memorandum 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 average assets. The Citrus Agreement, in addition to a Tier 1 leverage capital ratio of 8%, also required Citrus Bank to maintain total capital to risk weighted assets of not less than 14%. These restrictions are in force until such Agreement, Order and Memorandum are terminated. Failure to comply with the Agreement, Order or Memorandum could have a material adverse effect on CIB Marine and its operations. As of September 31, 2006, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Order, Memorandum and Agreement.

The risk-based capital information of CIB Marine at September 30, 2006 and December 31, 2005 is contained in the following table.

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Risk weighted assets	\$ 709,954	\$ 704,754
Average assets (1)	1,035,063	1,174,207
Capital components		
Stockholders’ equity	\$ 72,480	\$ 79,182
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	(35,840)	(33,606)
Maximum allowable in tier 1 capital	24,160	26,394
Nonfinancial equity items	(34)	(14)
Less: disallowed intangibles	(746)	(982)
Add: unrealized loss on securities	2,282	3,435
Tier 1 capital	98,142	108,015
Allowable allowance for loan losses	9,047	9,008
Allowable junior subordinated debentures net of investment in trust	35,840	33,606
Total risk-based capital	\$ 143,029	\$ 150,629

	Actual		Minimum Required to be Adequately Capitalized	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
<b>September 30, 2006</b>				
Total capital to risk weighted assets	\$143,029	20.15%	\$56,796	8.00%
Tier 1 capital to risk weighted assets	98,142	13.82	28,398	4.00
Tier 1 leverage to average assets	98,142	9.48	41,403	4.00
<b>December 31, 2005</b>				
Total capital to risk weighted assets	\$150,629	21.37%	\$56,380	8.00%
Tier 1 capital to risk weighted assets	108,015	15.33	28,190	4.00
Tier 1 leverage to average assets	108,015	9.20	46,968	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.

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## **Table of Contents**

### **New Accounting Pronouncements**

#### ***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. Adoption of this standard 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, and does not expect it to have a material impact on CIB Marine’s 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.

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## **Table of Contents**

### ***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 ending 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 2006 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 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 Federal Reserve Banks, and were required to pledge securities in order to have access to the federal reserve discount window. These restrictions were removed from one of the subsidiary banks during 2005 and at September 30, 2006, only two of the subsidiary banks were required to pledge securities in order to have access to the federal reserve 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.

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 nine months ended September 30, 2006 resulted from a net decrease in investment securities of \$116.8 million. Other sources of funds resulted from a \$5.2 million net increase in short-term borrowings, net cash received from the sale of branches of \$2.9 million, \$2.5 million from the sale of

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## **Table of Contents**

foreclosed properties, \$0.9 million in investing cash flows of discontinued operations and a \$0.7 million net decrease in other investments.

A net decrease in deposits of \$55.6 million, \$42.2 million of deposits sold and a net increase in the loan portfolio of \$37.1 million were CIB Marine's primary use of funds for the nine months ended September 30, 2006. Other uses of funds were \$12.5 million of cash used in operating activities, a \$9.5 million decrease in deposits held for sale, a \$5.3 million repayment of long-term borrowings, and \$0.5 million to purchase property and equipment.

The Company had liquid assets from continuing operations of \$79.3 million and \$112.9 million at September 30, 2006 and December 31, 2005, respectively.

CIB Marine was able to meet its liquidity needs during the first nine months of 2006. Beginning in 2004, CIB Marine deferred interest payments on its \$61.9 million of junior subordinated debentures and as a result distributions were deferred on \$60.0 million of preferred securities. The deferral period may last as long as 5 years. During 2007, it is expected that CIB Marine will continue to defer interest payments on its junior subordinated debentures and will have adequate funding capacity to meet its other obligations. The primary sources of funding are expected to be cash on hand, operating cash flows from the sale of services to subsidiary banks and the sale of other assets owned by CIB Marine. CIB Marine's subsidiary banks have high levels of liquid assets to meet potentially high liquidity needs at the banks.

### **Subsequent Events**

#### ***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 the first nine months of 2007, Canron paid \$1.2 million in dividends to CIB Construction and CIB Construction paid \$1.2 million in dividends to CIB Marine.

#### ***Regulatory Orders and Agreements***

In January 2007, the Cease and Desist Order at Central Illinois Bank was terminated and replaced with a Memorandum of Understanding. Among other items, the Memorandum requires Central Illinois Bank to maintain a minimum Tier 1 capital of 8% of total assets as calculated in accordance with Part 325 of the FDIC Rules and Regulations and to obtain regulatory approval prior to the purchase of any loan pools in excess of \$3.0 million.

#### ***Management Changes***

In March 2007, Mr. Stanley J. 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. John P. Hickey Jr. In May 2007, Mr. Hickey was also appointed to CIB Marine's Board of Directors. Mr. Calderon's employment agreement with CIB Marine terminated upon his resignation as President and CEO. In November 2007, Mr. Steven Klitzing announced his resignation as CFO of CIB Marine, effective November 14, 2007.

#### ***FHLB Stock Investment***

In September, 2007, the FHLB Chicago filed a Form 8-K with the SEC regarding the receipt of a draft consent cease and desist order from its regulator, the Federal Housing Finance Board ("Finance Board"). The draft order includes a prohibition, unless otherwise approved by the Director of the Office of Supervision of the Finance Board ("OS Director"), of capital stock repurchase and redemptions by the FHLB from its members, including redemptions upon membership withdrawal or termination. The FHLB states that the draft order contemplates that the OS Director may approve proposed redemptions, provided that allowing the redemption would be consistent with maintaining the capital adequacy of the FHLB. The draft order also proposes that dividend declarations would be subject to the prior written approval of the OS Director. At both December 31, 2006 and September 30, 2007, CIB Marine had \$11.5 million in FHLB Chicago stock, of which \$0.6 million and \$1.7 million, respectively, was categorized as required.

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## **Table of Contents**

### ***Liquidity***

During 2006 and 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 and short-term borrowing availability from the Federal Home Loan Bank of Chicago. In the first quarter of 2007, the restriction requiring one of the subsidiary banks to pledge securities in order to have access to the federal reserve discount window was removed.

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 \$1.1 million on these securities during 2005 and 2006, respectively.

### ***Loan Pool Purchase***

In February 2007, CIB Marine purchased a closed end pool of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation in the amount of \$48.2 million. The purchase was funded with cash on hand and \$15.0 million in FHLB Chicago borrowings. The purchased pool included 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.

In the third quarter of 2007 CIB Marine increased the loss provision rates on the two home equity pools it purchased during 2006 and 2007, primarily due to the general deterioration in the condition of the housing markets and the housing finance markets.

### ***Branch Activities***

During the last three months of 2006, Central Illinois Bank sold its Rantoul and Springfield, Illinois branches. The net gain on the sale of the two branches was \$0.6 million. The total deposits of these sold branches as of December 31, 2005 were \$31.6 million. CIB Marine had 30 branches as of December 31, 2006 holding \$0.8 billion in deposits.

During the first nine months of 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 \$49.7 million in deposits at the time of sales. Additionally, CIB Marine closed the Henderson, Nevada; Sun City, Arizona; and Indianapolis (Fox Road), Indiana branches and received regulatory approval to close the Milwaukee, Wisconsin branch. At December 31, 2006, these four branches had total deposits of \$46.7 million. Deposits of closed branches are transferred to other CIB Marine branches.

### ***Goodwill***

The balance of CIB Marine's goodwill at September 31, 2006 is a result of prior branch acquisitions and related to a branch that was sold in the first quarter of 2007. As a result of this branch sale CIB Marine had no goodwill at September 30, 2007.

### ***FDIC Deposit Insurance Premiums***

In October 2006, the FDIC Board of Directors approved a One-Time Assessment Credit. This credit, totaling

## Table of Contents

\$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 three months of 2006 and during 2007, 110,490 and 102,632 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 November 2006, 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. In May 2007, 74,000 options were granted at an exercise price of \$4.10 per share. As of September 30, 2007, there were 1,146,689 options outstanding with a weighted average exercise price of \$7.89.

### Late Filing of Tax Returns

CIB Marine did not file all required federal and state tax returns for calendar years 2004, 2005 and 2006 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. CIB Marine is in the process of completing the 2005 tax returns. Upon conclusion of the audit of the financial statements for 2006 and the filing of the related Form 10-K and Form 10-Q's with the SEC, CIB Marine intends to complete and file the 2006 tax returns. 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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since December 31, 2005, CIB Marine's market risk profile has become less sensitive to declining rates and more sensitive to rising rates. The change in sensitivity 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 2005 Annual Report on Form 10-K, which is on file with the Securities and Exchange Commission.

The following table illustrates the period and cumulative interest rate sensitivity gap for September 30, 2006.

### Repricing Interest Rate Sensitivity Analysis

	September 30, 2006						Total
	0-3 Months	4-6 Months	7-12 Months	2-5 Years	Over 5 Years	Held for sale/disposal	
(Dollars in thousands)							
<b>Interest-earning assets:</b>							
Loans	\$280,687	\$ 19,308	\$ 34,115	\$192,512	\$ 27,193	\$ (102)	\$553,713
Securities	53,075	16,305	52,157	215,497	46,588	—	383,622
Loans held for sale	520	—	—	—	—	—	520
Federal funds sold	56,125	—	—	—	—	—	56,125
<b>Total interest-earning assets</b>	<b>390,407</b>	<b>35,613</b>	<b>86,272</b>	<b>408,009</b>	<b>73,781</b>	<b>(102)</b>	<b>993,980</b>
<b>Interest-bearing liabilities:</b>							
Time deposits	91,339	126,338	153,248	120,006	4,813	(55,039)	440,705
Savings and interest-bearing demand deposits	244,817	—	—	—	—	(17,583)	227,234
Short-term borrowings	28,317	—	1,900	—	—	—	30,217
Long-term borrowings	—	—	—	2,000	—	—	2,000
Junior subordinated debentures	20,619	—	—	41,238	—	—	61,857
<b>Total interest-bearing liabilities</b>	<b>\$385,092</b>	<b>\$126,338</b>	<b>\$ 155,148</b>	<b>\$163,244</b>	<b>\$ 4,813</b>	<b>\$ (72,622)</b>	<b>\$762,013</b>
Interest sensitivity gap (by period)	5,315	(90,725)	(68,876)	244,765	68,968	72,520	231,967
Interest sensitivity gap (cumulative)	5,315	(85,410)	(154,286)	90,479	159,447	231,967	231,967
<b>Adjusted for derivatives:</b>							
Derivatives (notional, by period)	(4,198)	—	—	5,000	(802)	—	—

Derivatives (notional, cumulative)	<u>(4,198)</u>	<u>(4,198)</u>	<u>(4,198)</u>	<u>802</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest sensitivity gap (by period)	1,117	(90,725)	(68,876)	249,765	68,166	72,520	231,967
Interest sensitivity gap (cumulative)	1,117	(89,608)	(158,484)	91,281	159,447	231,967	231,967
Cumulative gap as a % of total assets	0.11%	(8.70)%	(15.38)%	8.86%	15.47%	22.51%	

## Table of Contents

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 September 30, 2006, and December 31, 2005.

	Basis point changes			
	+200	+100	-100	-200
Net interest income change over one year:				
September 30, 2006	(5.78)%	(3.47)%	1.51%	(0.57)%
December 31, 2005	1.48%	(1.14)%	(1.32)%	(5.27)%

## 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 September 30, 2006. Based on this evaluation, management has concluded that the disclosure controls and procedures were effective as of September 30, 2006.

### (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 September 30, 2006, 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 Cannon and its principal shareholder by defendants to induce the plaintiff to borrow money from CIB-Chicago and make a \$0.5 million investment in Cannon. 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 were secured by CIB Marine stock and the accounts receivable,

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## Table of Contents

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 the first quarter of 2006 related to the settlement.

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 now 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 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

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## Table of Contents

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. In light of a recent decision of the Supreme Court of the United States that addressed the pleading standards that must be satisfied by the plaintiff in a case such as this one, 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, seeking dismissal of the action on the ground that the plaintiffs have not satisfactorily pleaded one of the essential elements of their cause of action. That motion has been fully briefed and no date has been set for a decision.

On November 10, 2006, plaintiffs filed a further amended complaint as to KPMG, which KPMG moved to dismiss. On August 13, 2007, the court granted KPMG's motion and dismissed the action as to it.

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. In granting KPMG's motion to dismiss, the court noted the pendency of the motion for judgment on the pleadings described above and ruled that the stay of discovery will remain in place. Plaintiffs have filed a separate motion for a limited lift of the stay of discovery, which CIB Marine and the individual defendants opposed in their response filed on September 11, 2007. The court has not set a date to rule on the motions to vacate the stay of discovery.

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,

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## Table of Contents

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 CIB Marine, 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. Plaintiff sought compensatory damages in excess of \$2,000,000 and unspecified punitive damages. After a motion to dismiss the amended complaint resulted in the dismissal of the negligent misrepresentation claims against it, CIB Marine filed an answer denying any liability to plaintiff and a motion for summary judgment on the remaining claim. On August 28, 2007, following Plaintiff’s withdrawal of two of the three remaining claims against Katsaros, the Court granted CIB Marine and Katsaros summary judgment on the sole remaining claim and dismissed the lawsuit. On September 24, 2007, Plaintiff filed a notice of appeal of the judgment.

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. 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 (and through March 31, 2007 in the Burchett and Fasano/Arundel cases). 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.

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

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## **Table of Contents**

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) 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; (5) 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; (6) 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; (7) 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 (8) 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. Subsequently, the Trustee for the bankruptcy estate of Mark Swift assumed the action as plaintiff. In September 2007, the plaintiff amended the complaint and dismissed CIB Marine and CIB Capital as defendants.

### **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 third quarter of 2006.

### **ITEM 5. OTHER INFORMATION**

Not Applicable.

### **ITEM 6. EXHIBITS**

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

Exhibit 31.2-Certification of Steven T. Klitzing, Chief Financial Officer, under Rule 13a-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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[Table of Contents](#)

**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 6th day of November, 2007.

CIB MARINE BANCSHARES, INC.  
(Registrant)

By: /s/ STEVEN T. KLITZING

Steven T. Klitzing  
Executive Vice President and Chief Financial Officer

<DOCUMENT>  
<TYPE> EX-31.1  
<FILENAME> c21261exv31w1.htm  
<DESCRIPTION> Certification of Chief Executive Officer  
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## 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: November 6, 2007

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

<DOCUMENT>  
<TYPE> EX-31.2  
<FILENAME> c21261exv31w2.htm  
<DESCRIPTION> Certification of Chief Financial Officer  
<TEXT>

**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: November 6, 2007

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

<DOCUMENT>  
<TYPE> EX-32.1  
<FILENAME> c21261exv32w1.htm  
<DESCRIPTION> 906 Certification of Chief Executive Officer  
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**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 September 30, 2006 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: November 6, 2007

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

<DOCUMENT>  
<TYPE> EX-32.2  
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**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 September 30, 2006 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: November 6, 2007

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