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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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 February 29, 2008 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, 2007, 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, 2007 and December 31, 2006                              | 3             |
| Consolidated Statements of Operations for the Quarter and Nine Months Ended September 30, 2007 and 2006 | 4             |
| Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2007 and 2006   | 5             |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006             | 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                                       | 40            |
| Item 4 Controls and Procedures  | 41            |
| <b>Part II-Other Information</b>  |               |
| Item 1 Legal Proceedings  | 41            |
| Item 1A Risk Factors  | 46            |
| Item 6 Exhibits   | 46            |
| <b>Signatures</b>   | 47            |

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CIB MARINE BANCSHARES, INC.**

**Consolidated Balance Sheets**

|  | <b>September 30,<br/>2007<br/>(Unaudited)</b>        | <b>December 31,<br/>2006</b> |
|--|--|------------------------------|
|  | <b>(Dollars in thousands,<br/>except share data)</b> |                              |
| <b>Assets</b>  |  |                              |
| Cash and cash equivalents:   |  |                              |
| Cash and due from banks  | \$ 17,255  | \$ 24,447                    |
| Federal funds sold   | <u>61,692</u>  | <u>90,688</u>                |
| Total cash and cash equivalents  | 78,947   | 115,135                      |
| Loans held for sale  | —  | 80                           |
| Securities available for sale  | 283,821  | 333,288                      |
| Loans  | 604,148  | 522,624                      |
| Allowance for loan losses  | <u>(25,582)</u>                                      | <u>(20,906)</u>              |
| Net loans  | 578,566  | 501,718                      |
| Premises and equipment, net  | 9,331  | 10,912                       |
| Accrued interest receivable  | 5,918  | 5,582                        |
| Foreclosed properties  | 1,180  | 102                          |
| Assets of branches held for sale   | —  | 418                          |
| Assets of companies held for disposal  | 2,559  | 4,112                        |
| Goodwill   | —  | 746                          |
| Other assets   | <u>21,866</u>  | <u>25,491</u>                |
| Total assets   | <u>\$ 982,188</u>                                    | <u>\$ 997,584</u>            |
| <b>Liabilities and Stockholders' Equity</b>  |  |                              |
| Deposits:  |  |                              |
| Noninterest-bearing demand   | \$ 70,618  | \$ 81,741                    |
| Interest-bearing demand  | 33,792   | 38,167                       |
| Savings  | 181,871  | 181,664                      |
| Time   | <u>461,140</u>                                       | <u>438,212</u>               |
| Total deposits   | 747,421  | 739,784                      |
| Short-term borrowings  | 72,765   | 27,653                       |
| Long-term borrowings   | —  | 2,000                        |
| Junior subordinated debentures   | 61,857   | 61,857                       |
| Accrued interest payable   | 30,834   | 24,940                       |
| Deposits of branches held for sale   | —  | 55,365                       |
| Liabilities of companies held for disposal   | 4,118  | 7,003                        |
| Other liabilities  | <u>3,871</u>   | <u>7,369</u>                 |
| Total liabilities  | 920,866  | 925,971                      |
| <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  | 158,388  | 158,266                      |
| Accumulated deficit  | (114,598)  | (102,806)                    |
| Accumulated other comprehensive loss, net  | (531)  | (1,880)                      |
| Receivables from sale of stock   | (121)  | (151)                        |
| Treasury stock at cost, 12,663 shares  | <u>(162)</u>   | <u>(162)</u>                 |
| Total stockholders' equity   | <u>61,322</u>  | <u>71,613</u>                |
| Total liabilities and stockholders' equity   | <u>\$ 982,188</u>                                    | <u>\$ 997,584</u>            |

See accompanying Notes to Unaudited Consolidated Financial Statements

**CIB MARINE BANCSHARES, INC.**

**Consolidated Statements of Operations  
(Unaudited)**

|  | <u>Quarter Ended</u><br><u>September 30,</u>            |                  | <u>Nine Months Ended</u><br><u>September 30,</u> |                   |
|--|---|------------------|--|-------------------|
|  | <u>2007</u>   | <u>2006</u>      | <u>2007</u>                                      | <u>2006</u>       |
|  | (Dollars in thousands, except share and per share data) |                  |  |                   |
| <b>Interest and Dividend Income</b>  |   |                  |  |                   |
| Loans  | \$ 11,511   | \$ 10,274        | \$ 33,374  | \$ 27,842         |
| Loans held for sale  | 2   | 1                | 4  | 1                 |
| Securities:  |   |                  |  |                   |
| Taxable  | 3,343   | 4,520            | 10,615   | 13,658            |
| Tax-exempt   | 21  | 40               | 63   | 129               |
| Dividends  | 93  | 138              | 307  | 503               |
| Federal funds sold   | 718   | 979              | 2,501  | 3,203             |
| Total interest and dividend income   | <u>15,688</u>   | <u>15,952</u>    | <u>46,864</u>                                    | <u>45,336</u>     |
| <b>Interest Expense</b>  |   |                  |  |                   |
| Deposits   | 7,438   | 7,559            | 22,288   | 21,507            |
| Short-term borrowings  | 415   | 404              | 1,016  | 728               |
| Long-term borrowings   | —   | 37               | 14   | 219               |
| Junior subordinated debentures   | 2,165   | 1,975            | 6,335  | 5,714             |
| Total interest expense   | <u>10,018</u>   | <u>9,975</u>     | <u>29,653</u>                                    | <u>28,168</u>     |
| Net interest income  | 5,670   | 5,977            | 17,211   | 17,168            |
| Provision for (reversal of) credit losses                                  | 5,834   | (1,079)          | 5,847  | (3,364)           |
| Net interest income (loss) after provision for (reversal of) credit losses | (164)   | 7,056            | 11,364   | 20,532            |
| <b>Noninterest Income</b>  |   |                  |  |                   |
| Loan fees  | 54  | 64               | 300  | 192               |
| Deposit service charges  | 242   | 256              | 717  | 797               |
| Other service fees   | (16)  | 48               | 80   | 156               |
| Other income   | 58  | 121              | 167  | 248               |
| Net gain/(loss) on sale of assets and deposits                             | (111)   | 1,094            | 1,360  | 2,021             |
| Total noninterest income   | <u>227</u>  | <u>1,583</u>     | <u>2,624</u>                                     | <u>3,414</u>      |
| <b>Noninterest Expense</b>   |   |                  |  |                   |
| Compensation and employee benefits   | 4,012   | 5,005            | 14,132   | 16,108            |
| Equipment  | 781   | 764              | 2,400  | 2,580             |
| Occupancy and premises   | 720   | 798              | 2,380  | 2,502             |
| Professional services  | 984   | 1,079            | 2,389  | 2,951             |
| Impairment loss on investment securities                                   | —   | —                | —  | 1,134             |
| Write down and losses on assets  | 742   | —                | 742  | —                 |
| Other expense  | 1,503   | 1,755            | 4,278  | 7,318             |
| Total noninterest expense  | <u>8,742</u>  | <u>9,401</u>     | <u>26,321</u>                                    | <u>32,593</u>     |
| Loss from continuing operations before income taxes                        | (8,679)   | (762)            | (12,333)   | (8,647)           |
| Income tax expense (benefit)   | —   | 53               | 3  | (178)             |
| <b>Loss from continuing operations</b>                                     | <u>(8,679)</u>  | <u>(815)</u>     | <u>(12,336)</u>                                  | <u>(8,469)</u>    |
| <b>Discontinued operations:</b>  |   |                  |  |                   |
| Pretax income from discontinued operations                                 | 8   | 332              | 411  | 619               |
| Income tax expense (benefit)   | 70  | (53)             | (1,093)  | 178               |
| Income (loss) from discontinued operations                                 | <u>(62)</u>   | <u>385</u>       | <u>1,504</u>                                     | <u>441</u>        |
| <b>Net loss</b>  | <u>\$ (8,741)</u>                                       | <u>\$ (430)</u>  | <u>\$ (10,832)</u>                               | <u>\$ (8,028)</u> |
| <b>Earnings (Loss) Per Share</b>   |   |                  |  |                   |
| Basic:   |   |                  |  |                   |
| Loss from continuing operations  | \$ (0.47)   | \$ (0.04)        | \$ (0.67)  | \$ (0.46)         |
| Discontinued operations  | (0.01)  | 0.02             | 0.08   | 0.02              |
| Net loss   | <u>\$ (0.48)</u>  | <u>\$ (0.02)</u> | <u>\$ (0.59)</u>                                 | <u>\$ (0.44)</u>  |
| Diluted:   |   |                  |  |                   |
| Loss from continuing operations  | \$ (0.47)   | \$ (0.04)        | \$ (0.67)  | \$ (0.46)         |
| Discontinued operations  | (0.01)  | 0.02             | 0.08   | 0.02              |
| Net loss   | <u>\$ (0.48)</u>  | <u>\$ (0.02)</u> | <u>\$ (0.59)</u>                                 | <u>\$ (0.44)</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        |

**CIB MARINE BANCSHARES, INC.**

**Consolidated Statements of Stockholders' Equity**

|   | <u>Common Stock</u> |                  | <u>Capital<br/>Surplus</u> | <u>Accumulated<br/>Deficit</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Stock<br/>Receivables<br/>and<br/>Treasury<br/>Stock</u> | <u>Total</u>     |
|---|---------------------|------------------|----------------------------|--------------------------------|---|---|------------------|
|   | <u>Shares</u>       | <u>Par Value</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 income (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> |
| <b>Balance, December 31, 2006</b>                             | 18,346,442          | \$ 18,346        | \$ 158,266                 | \$ (102,806)                   | \$ (1,880)  | \$ (313)  | \$ 71,613        |
| Cumulative effect of adoption of FIN 48 (1)                   | —                   | —                | —                          | (960)                          | —   | —   | (960)            |
| <b>Adjusted balance at beginning of period</b>                | <u>18,346,442</u>   | <u>\$ 18,346</u> | <u>\$ 158,266</u>          | <u>\$ (103,766)</u>            | <u>\$ (1,880)</u>                                       | <u>\$ (313)</u>   | <u>\$ 70,653</u> |
| Comprehensive loss:   |                     |                  |                            |                                |   |   |                  |
| Net loss  | —                   | —                | —                          | (10,832)                       | —   | —   | (10,832)         |
| Other comprehensive income (loss):                            |                     |                  |                            |                                |   |   |                  |
| Unrealized securities holding gains arising during the period | —                   | —                | —                          | —                              | 1,349   | —   | 1,349            |
| Total comprehensive loss                                      |                     |                  |                            |                                |   |   | (9,483)          |
| Stock option expense  | —                   | —                | 122                        | —                              | —   | —   | 122              |
| Reduction in receivables from sale of stock                   | —                   | —                | —                          | —                              | —   | 30  | 30               |
| <b>Balance, September 30, 2007 (unaudited)</b>                | <u>18,346,442</u>   | <u>\$ 18,346</u> | <u>\$ 158,388</u>          | <u>\$ (114,598)</u>            | <u>\$ (531)</u>   | <u>\$ (283)</u>   | <u>\$ 61,322</u> |

(1) See Note 1-Basis of Presentation for further discussion on the FIN 48 adjustment.

See accompanying Notes to Unaudited Consolidated Financial Statements

**CIB MARINE BANCSHARES, INC.**

**Consolidated Statements of Cash Flows  
(Unaudited)**

|   | <u>Nine Months Ended September 30.</u> |                  |
|---|--|------------------|
|   | <u>2007</u>                            | <u>2006</u>      |
|   | (Dollars in thousands)                 |                  |
| <b>Cash Flows from Operating Activities</b>   |  |                  |
| Net loss from continuing operations   | \$ (12,336)                            | \$ (8,469)       |
| Net income from discontinued operations   | <u>1,504</u>                           | <u>441</u>       |
|   | (10,832)                               | (8,028)          |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |  |                  |
| Deferred loan fee amortization  | (510)                                  | (493)            |
| Depreciation and other amortization   | 836                                    | 2,574            |
| Provision for (reversal of) credit losses   | 5,847                                  | (3,364)          |
| Originations of loans held for sale   | (2,601)                                | (1,378)          |
| Proceeds from sale of loans held for sale   | 2,714                                  | 868              |
| Net gain on sale of assets and deposits   | (618)                                  | (2,021)          |
| Impairment loss on investment securities  | —                                      | 1,134            |
| Decrease (increase) in interest receivable and other assets                               | 2,864                                  | (1,984)          |
| Increase in interest payable junior subordinated debentures                               | 6,292                                  | 5,673            |
| Decrease in other interest payable and other liabilities                                  | (3,954)                                | (5,009)          |
| Operating cash flows of discontinued operations   | <u>(2,001)</u>                         | <u>(450)</u>     |
| Net cash used in operating activities   | (1,963)                                | (12,478)         |
| <b>Cash Flows from Investing Activities</b>   |  |                  |
| Maturities of securities available for sale   | 85,712                                 | 129,332          |
| Purchase of securities available for sale   | (83,826)                               | (80,428)         |
| Proceeds from sales of securities available for sale                                      | 33,204                                 | —                |
| Proceeds from sales of mortgage-backed securities available for sale                      | 48,037                                 | —                |
| Repayments of asset and mortgage-backed securities available for sale                     | 41,766                                 | 62,834           |
| Purchase of asset and mortgage-backed securities available for sale                       | (73,514)                               | (4,746)          |
| Net decrease in Federal Home Loan Bank stock  | 45                                     | 9,768            |
| Net decrease in other investments   | 43                                     | 680              |
| Net increase in loans   | (83,216)                               | (37,074)         |
| Proceeds from sale of foreclosed properties   | 10                                     | 2,521            |
| Net cash received from the sale of branch assets and deposits                             | 2,278                                  | 2,933            |
| Decrease (increase) in premises and equipment, net  | 231                                    | (528)            |
| Investing cash flows of discontinued operations   | <u>(291)</u>                           | <u>891</u>       |
| Net cash (used in) provided by investing activities                                       | (29,521)                               | 86,183           |
| <b>Cash Flows from Financing Activities</b>   |  |                  |
| Increase (decrease) in deposits   | 7,519                                  | (55,621)         |
| Decrease in deposits held for sale  | (5,700)                                | (9,478)          |
| Deposits sold   | (49,665)                               | (42,185)         |
| Repayments of long-term borrowings  | (2,000)                                | (5,250)          |
| Net increase in short-term borrowings   | 45,112                                 | 5,216            |
| Net decrease in receivables from sale of stock  | 30                                     | —                |
| Net cash used in financing activities   | <u>(4,704)</u>                         | <u>(107,318)</u> |
| Net decrease in cash and cash equivalents   | (36,188)                               | (33,613)         |
| Cash and cash equivalents, beginning of period  | 115,135                                | 112,912          |
| Cash and cash equivalents, end of period  | <u>\$ 78,947</u>                       | <u>\$ 79,299</u> |
| <b>Supplemental Cash Flow Information</b>   |  |                  |
| Cash paid during the period for:  |  |                  |
| Interest expense-continuing operations  | \$ 23,759                              | \$ 22,474        |
| Income taxes-discontinued operations  | —                                      | 2                |
| <b>Supplemental Disclosures of Noncash Activities</b>                                     |  |                  |
| Transfer of loans to foreclosed properties  | 1,109                                  | 52               |
| Transfer of deposits to deposits of branches held for sale                                | —                                      | 59,997           |
| Cumulative effect of adoption of FIN 48 (1)   | 960                                    | —                |

(1) See Note 1-Basis of Presentation for further discussion on the FIN 48 adjustment.

See accompanying Notes to Unaudited Consolidated Financial Statements

## **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") 2006 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, 2007 and 2006. The results of operations for the quarter and nine months ended September 30, 2007 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 United States 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, 2007 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, 2007, 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 and Arizona. 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.

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 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.

In June 2006, the FASB released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting and reporting for

uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. CIB Marine adopted FIN 48 on January 1, 2007 and has completed the process of evaluating the effect of FIN 48 on its consolidated financial statements as of January 1, 2007 and as of and for the nine months ended September 30, 2007. The FIN 48 adjustment is related to CIB Marine's investment in an Illinois Real Estate Investment Trust ("REIT"), owned by its former Illinois banking subsidiary, which was sold in 2004. As of December 31, 2006, CIB Marine maintained a \$1.9 million liability related to its exposure. The cumulative effect of adopting FIN 48 was a \$1.0 million increase in liabilities of companies held for disposal and a \$1.0 million decrease to the January 1, 2007 retained earnings balance. During the second quarter of 2007 the statute of limitations expired with respect to a portion of this exposure. As a result of this event, CIB Marine reversed \$1.3 million of the tax liability through a credit to discontinued operations tax expense. During the first nine months of 2007, CIB Marine also recording a \$0.2 million charge to its discontinued operations tax expense for interest and penalties related to the remaining REIT tax exposure. At September 30, 2007 and December 31, 2006, respectively, CIB Marine had a \$1.7 million and \$1.9 million current tax liability related to the tax exposure of its former subsidiary. This amount is included in liabilities of companies held for disposal on the consolidated balance sheets. At both September 30, 2007 and December 31, 2006, CIB Marine also had a \$0.5 million current tax liability related to individually insignificant federal and state tax items. Of this amount \$0.2 million is included in liabilities of companies held for disposal and \$0.3 million is netted against the income tax receivable included in other assets.

CIB Marine files income tax returns in the U. S. federal and various state jurisdictions. CIB Marine is no longer subject to income tax examinations by U. S. federal or state tax authorities for years before 1999. As of January 1, 2007 the gross amount of unrecognized tax benefits was \$4.7 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$2.4 million. CIB Marine recognizes any interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of the date of adoption of FIN 48, approximately \$1.0 million was accrued for the potential payment of interest and penalties. CIB Marine does not anticipate significant adjustments to the amount of total unrecognized tax benefits within the next twelve months.

## Note 2-Stock Option Plans

CIB Marine has a nonqualified stock option and incentive plan for its employees and directors. At September 30, 2007, options to purchase 492,041 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, 2007 or 2006:

|   | <u>Number<br/>of Shares</u> | <u>Range of<br/>Option Prices<br/>per Share</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted Average<br/>Remaining<br/>Contractual<br/>Term in Years</u> | <u>Weighted Average<br/>Grant Date<br/>Fair Value<br/>Per Share</u> |
|---|-----------------------------|---|--|---|---|
| Shares under option at December 31, 2006  | <u>1,172,321</u>            | <u>\$ 4.10-22.89</u>                            | <u>\$ 8.47</u>                                     |   |   |
| Granted                                   | 74,000                      | \$ 4.10   | \$ 4.10  |   | \$ <u>0.82</u>  |
| Lapsed or surrendered                     | (102,632)                   | 4.10-22.89                                      | 11.63  |   |   |
| Exercised                                 | —                           | —   | —  |   |   |
| Shares under option at September 30, 2007 | <u>1,143,689</u>            | <u>\$ 4.10-22.89</u>                            | <u>\$ 7.90</u>                                     | <u>6.72</u>   |   |
| Shares exercisable at September 30, 2007  | <u>484,639</u>              | <u>\$ 4.10-22.89</u>                            | <u>\$ 13.07</u>                                    | <u>3.92</u>   |   |

The following table shows activity relating to nonvested stock options:

|   |                 |
|---|-----------------|
| Nonvested stock options at December 31, 2006  | 703,550         |
| Granted                                       | 74,000          |
| Vested  | (83,350)        |
| Forfeited                                     | <u>(35,150)</u> |
| Nonvested stock options at September 30, 2007 | 659,050         |

Fair value has been estimated using the Black-Scholes model as defined in SFAS No. 123 ("SFAS 123"). The following assumptions were used in estimating the fair value for options granted during the first nine months of

2007 and 2006:

|  | <b>September 30,</b> |             |
|--|----------------------|-------------|
|  | <b>2007</b>          | <b>2006</b> |
| Dividend yield                                   | —                    | —           |
| Risk free interest rate                          | 4.88%                | 4.87%       |
| Expected volatility                              | 39%                  | 47%         |
| Weighted average expected life                   | 6.5 years            | 6.5 years   |
| Weighted average per share fair value of options | \$0.82               | \$0.69      |

SFAS No. 123(R)'s *Share-Based Payments* ("SFAS 123(R)") fair value method resulted in \$0.1 million compensation expense for both the first nine months of 2007 and 2006. In accordance with SFAS 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, 2007, CIB Marine had \$0.5 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 3.7 years.

SFAS 123(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, 2007.

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, an additional increase in capital surplus.

### Note 3-Securities Available for Sale

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

|  | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair Value</u> |
|--|---------------------------|---------------------------------------|--|-------------------|
|  | (Dollars in thousands)    |                                       |  |                   |
| <b>September 30, 2007</b>                        |                           |                                       |  |                   |
| U.S. government agencies                         | \$ 71,070                 | \$ 467                                | \$ 33                                  | \$ 71,504         |
| Obligations of states and political subdivisions | 31,597                    | 40                                    | 761                                    | 30,876            |
| Other notes and bonds                            | 7,098                     | —                                     | 100                                    | 6,998             |
| Asset-backed securities                          | 84                        | —                                     | —                                      | 84                |
| Corporate commercial paper                       | 4,300                     | —                                     | —                                      | 4,300             |
| Mortgage-backed securities                       | <u>170,203</u>            | <u>782</u>                            | <u>926</u>                             | <u>170,059</u>    |
| Total securities available for sale              | <u>\$ 284,352</u>         | <u>\$ 1,289</u>                       | <u>\$ 1,820</u>                        | <u>\$ 283,821</u> |
| <b>December 31, 2006</b>                         |                           |                                       |  |                   |
| U.S. government agencies                         | \$ 101,321                | \$ 193                                | \$ 554                                 | \$ 100,960        |
| Obligations of states and political subdivisions | 32,067                    | 146                                   | 526                                    | 31,687            |
| Other notes and bonds                            | 350                       | —                                     | —                                      | 350               |
| Asset-backed securities                          | 2,192                     | 5                                     | —                                      | 2,197             |
| Corporate commercial paper                       | 4,384                     | —                                     | —                                      | 4,384             |
| Mortgage-backed securities                       | <u>194,854</u>            | <u>520</u>                            | <u>1,664</u>                           | <u>193,710</u>    |
| Total securities available for sale              | <u>\$ 335,168</u>         | <u>\$ 864</u>                         | <u>\$ 2,744</u>                        | <u>\$ 333,288</u> |

As of September 30, 2007, management has concluded that the unrealized losses above are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers of securities in the investment portfolio. Additionally, CIB Marine has the intent and ability to hold these investments for the time necessary to recover the amortized cost.

Securities available for sale with a carrying value of \$153.5 million and \$140.9 million at September 30, 2007 and December 31, 2006, respectively, were pledged to secure public deposits, Federal Home Loan Bank (“FHLB”) advances, repurchase agreements, federal funds purchased, borrowings from the federal reserve discount window, and for 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 that decision, 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 during the nine months ended September 30, 2006. This impairment loss is included in impairment loss on investment securities on the consolidated statements of operations. There were no impairment losses during the first nine months of 2007.

#### Note 4-Loans

The components of loans are as follows:

|   | September 30, 2007 |                                      | December 31, 2006 |            |
|---|--------------------|--------------------------------------|-------------------|------------|
|   | Amount             | % of Total<br>(Dollars in thousands) | Amount            | % of Total |
| Commercial                                | \$ 71,031          | 11.8%                                | \$ 49,777         | 9.5%       |
| Commercial real estate                    | 264,637            | 43.9                                 | 282,233           | 54.0       |
| Commercial real estate construction       | 138,275            | 23.0                                 | 111,040           | 21.3       |
| Residential real estate                   | 19,239             | 3.2                                  | 19,125            | 3.7        |
| Home equity                               | 106,233            | 17.6                                 | 57,990            | 11.1       |
| Consumer                                  | 3,108              | 0.5                                  | 2,363             | 0.4        |
| Receivables from sale of CIB Marine stock | (121)              | (0.0)                                | (151)             | (0.0)      |
| Gross loans                               | 602,402            | 100.0%                               | 522,377           | 100.0%     |
| Deferred loan fees                        | 1,746              |                                      | 247               |            |
| Total loans                               | 604,148            |                                      | 522,624           |            |
| Allowance for loan losses                 | (25,582)           |                                      | (20,906)          |            |
| Loans, net                                | <u>\$ 578,566</u>  |                                      | <u>\$ 501,718</u> |            |

Certain directors and principal officers of CIB Marine and its subsidiaries, as well as companies with which those individuals are affiliated, are customers of, and conduct banking transactions with, CIB Marine’s subsidiary banks in the ordinary course of business. Such loans totaled \$6.9 million and \$7.0 million at September 30, 2007 and December 31, 2006, respectively.

At September 30, 2007 and December 31, 2006, CIB Marine had \$1.6 million and \$1.7 million, respectively, in outstanding principal balances on loans secured, or partially secured, by CIB Marine stock. Specific reserves on these loans were \$0.3 million and \$0.01 million at September 30, 2007 and December 31, 2006, respectively. Loans made specifically to enable the borrower to purchase CIB Marine stock and which were not adequately secured by collateral other than the stock have been classified as receivables from sale of stock, recorded as contra-equity and are not included in this balance.

In February 2007, CIB Marine purchased a \$48.2 million closed end pool of fixed rate second lien home equity loans from Residential Funding Corporation, a division of General Motors Acceptance Corporation. The purchased pool included 965 loans with a weighted average yield of 10.0%, 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. See Note 14-Subsequent Events for further information regarding this purchased loan pool.

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

|   | September 30,<br>2007  | December 31,<br>2006 |
|---|------------------------|----------------------|
|   | (Dollars in thousands) |                      |
| Nonaccrual loans                                  | \$ 25,639              | \$20,669             |
| Restructured loans                                | —                      | —                    |
| Loans 90 days or more past due and still accruing | 1,744                  | 1,485                |

Information on impaired loans is as follows:

|  | <u>September 30,<br/>2007</u> | <u>December 31,<br/>2006</u> |
|--|-------------------------------|------------------------------|
|  | (Dollars in thousands)        |                              |
| Impaired loans without a specific allowance  | \$ 5,631                      | \$ 5,543                     |
| Impaired loans with a specific allowance     | <u>18,496</u>                 | <u>14,380</u>                |
| Total impaired loans                         | <u>\$ 24,127</u>              | <u>\$ 19,923</u>             |
| Specific allowance related to impaired loans | <u>\$ 8,791</u>               | <u>\$ 7,451</u>              |

Changes in the allowance for loan losses were as follows:

|  | <u>Quarter Ended<br/>September 30,</u> |                  | <u>Nine Months Ended<br/>September 30,</u> |                  |
|--|--|------------------|--|------------------|
|  | <u>2007</u>                            | <u>2006</u>      | <u>2007</u>                                | <u>2006</u>      |
|  | (Dollars in thousands)                 |                  |  |                  |
| Balance at beginning of period                     | \$ 21,019                              | \$ 23,105        | 20,906                                     | 24,882           |
| Charge-offs  | (1,309)                                | (3)              | (2,655)                                    | (261)            |
| Recoveries   | <u>38</u>                              | <u>86</u>        | <u>1,484</u>                               | <u>852</u>       |
| Net loan (charge-offs)/recoveries                  | (1,271)                                | 83               | (1,171)                                    | 591              |
| Provision for (reversal of) loan losses            | <u>5,834</u>                           | <u>(1,079)</u>   | <u>5,847</u>                               | <u>(3,364)</u>   |
| Balance at end of period                           | <u>\$ 25,582</u>                       | <u>\$ 22,109</u> | <u>\$ 25,582</u>                           | <u>\$ 22,109</u> |
| Allowance for loan losses as a percentage of loans | <u>4.23%</u>                           | <u>3.99%</u>     | <u>4.23%</u>                               | <u>3.99%</u>     |

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 \$2.0 million and \$2.2 million as of September 30, 2007 and December 31, 2006, respectively.

#### Note 5-Goodwill

During the first quarter of 2007, CIB Marine sold the fixed assets and deposits of its branch located in Cedarburg, Wisconsin. At December 31, 2006, goodwill of \$0.7 million, the entire amount of CIB Marine's goodwill, was allocated to this branch. As a result of this branch sale, CIB Marine has no goodwill at September 30, 2007. The goodwill was not subject to amortization, but was 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 the nine months ended September 30, 2007 or 2006.

#### 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:

|  | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets of companies held for disposal:           |                           |                          |
| CIB Construction (1)                             | \$ 1,403                  | \$ 3,250                 |
| MICR (1)   | —                         | 127                      |
| MSI  | 1,223                     | 800                      |
| Other (2)  | <u>(67)</u>               | <u>(65)</u>              |
| Total assets of companies held for disposal      | <u>\$ 2,559</u>           | <u>\$ 4,112</u>          |
| Liabilities of companies held for disposal:      |                           |                          |
| CIB Construction (1)                             | \$ 2,585                  | \$ 4,559                 |
| MICR (1)   | 33                        | 297                      |
| MSI  | 681                       | 656                      |
| Other (2)  | <u>819</u>                | <u>1,491</u>             |
| Total liabilities of companies held for disposal | <u>\$ 4,118</u>           | <u>\$ 7,003</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. MICR was dissolved in January 2008, and CIB Marine received an extension from the banking regulators to hold Canron until June 30, 2008.
- (2) Includes tax liability of subsidiary sold in 2004 and elimination of intercompany transactions between companies held for disposal and affiliates. See Note 1-Basis of Presentation for further information on the tax exposure liability.

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

|   | Pretax<br>income/(loss)<br>other<br>income | Income<br>tax<br>expense<br>(benefit) | Other<br>Income (1) | Net<br>income/(loss)<br>net of<br>intercompany<br>transactions |
|---|--|---------------------------------------|---------------------|--|
| <b>(Dollars in thousands)</b>               |  |                                       |                     |  |
| <b>Quarter Ended September 30, 2007</b>     |  |                                       |                     |  |
| CIB Construction                            | \$ —                                       | \$ —                                  | \$ —                | \$ —   |
| MSI   | (7)  | —                                     | 15                  | 8  |
| Other (2)                                   | —  | 70                                    | —                   | (70)   |
| Total                                       | <u>\$ (7)</u>                              | <u>\$ 70</u>                          | <u>\$ 15</u>        | <u>\$ (62)</u>   |
| <b>Nine Months Ended September 30, 2007</b> |  |                                       |                     |  |
| CIB Construction                            | \$ 131                                     | \$ 3                                  | \$ —                | \$ 128   |
| MSI   | 245  | 131                                   | 35                  | 149  |
| Other (2)                                   | —  | (1,227)                               | —                   | 1,227  |
| Total                                       | <u>\$ 376</u>                              | <u>\$ (1,093)</u>                     | <u>\$ 35</u>        | <u>\$ 1,504</u>  |
| <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>  |

(1) Includes elimination of intercompany transactions and estimated interest and penalties on the tax exposure of a subsidiary sold in 2004. See Note 1-Basis of Presentation for further information on the tax exposure.

(2) Relates to MICR taxes. Additionally, 2007 also includes estimated interest and penalties on the tax exposure of a subsidiary sold in 2004. See Note 1-Basis of Presentation for further information on the tax exposure.

#### ***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 Board of Directors of Canron authorized management to cease operating Canron and commence a wind down of its affairs, including a voluntary liquidation of its assets. Canron filed Articles of Dissolution in December 2006. 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. At both September 30, 2007 and December 31, 2006, CIB Construction's net carrying value of its investment in Canron was zero.

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, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets:                                    |                           |                          |
| Cash on deposit at CIB Marine              | \$ 23                     | \$ 50                    |
| Accounts receivable                        | 551                       | 551                      |
| Other assets                               | 829                       | 2,649                    |
| Total assets                               | <u>\$ 1,403</u>           | <u>\$ 3,250</u>          |
| Liabilities and stockholder's equity:      |                           |                          |
| Income tax payable                         | \$ 1,409                  | \$ 3,082                 |
| Other liabilities                          | 1,176                     | 1,477                    |
| Total liabilities                          | 2,585                     | 4,559                    |
| Stockholder's equity                       | (1,182)                   | (1,309)                  |
| Total liabilities and stockholder's equity | <u>\$ 1,403</u>           | <u>\$ 3,250</u>          |

### **MICR**

During the fourth quarter of 2005, CIB Marine sold substantially all of the assets and operations of MICR to unrelated parties and changed the company's name to Everett Tech, Inc. MICR filed Articles of Dissolution in January 2008. At both September 30, 2007 and December 31, 2006, the remaining net liabilities of MICR consisted of income taxes payable.

### **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 composition of MSI's balance sheet:

|  | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets:                                    |                           |                          |
| Cash on deposit at CIB Marine              | \$ 41                     | \$ 14                    |
| Net loans                                  | 605                       | 100                      |
| Income tax receivable                      | 569                       | 685                      |
| Other assets                               | 8                         | 1                        |
| Total assets                               | <u>\$ 1,223</u>           | <u>\$ 800</u>            |
| Liabilities and stockholder's equity:      |                           |                          |
| Loans payable to CIB Marine                | \$ 646                    | \$ 103                   |
| Other liabilities                          | 35                        | 553                      |
| Total liabilities                          | 681                       | 656                      |
| Stockholder's equity                       | 542                       | 144                      |
| Total liabilities and stockholder's equity | <u>\$ 1,223</u>           | <u>\$ 800</u>            |

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

At December 31, 2006, CIB Marine's subsidiary bank Marine Bank (Wauwatosa, Wisconsin) held for sale the deposits and property and equipment of its Cedarburg and Brookfield, Wisconsin branches. The deposits and property and equipment of these two branches comprised the balance of assets and deposits of branches held for sale as of December 31, 2006. During the first half of 2007, Marine Bank sold the deposits and property and equipment of these two branches and recognized a net pretax gain on the sales of \$1.1 million. The gain is included in net gain on sale of assets and deposits. At the dates of sale, the deposits and net property and equipment of these sold branches were \$49.7 million and \$0.4 million, respectively. Additionally, goodwill of \$0.7 million was allocated to the Cedarburg branch. At September 30, 2007, no branches were held for sale.

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 on the sales of the branches is included in net gain on sale of assets and deposits. Two of the four sold branches were located in Illinois, one in Nebraska and one in Wisconsin. At the dates of the sale, the deposits and net property and equipment of these sold branches were \$42.2 million and \$0.7 million, respectively. Goodwill of \$0.2 million was allocated to the Wisconsin branch.

#### Note 8-Other Assets

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

|  | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Federal Home Loan Bank and Federal Reserve Bank stock, at cost   | \$ 12,298                 | \$ 12,314                |
| Prepaid expenses   | 1,193                     | 1,067                    |
| Accounts receivable  | 280                       | 1,508                    |
| Trust preferred securities underwriting fee, net of amortization | 1,294                     | 1,335                    |
| Investment in trust common securities                            | 2,975                     | 2,838                    |
| Other investments  | 1,451                     | 2,821                    |
| Income tax receivable  | 2,254                     | 3,492                    |
| Other  | 121                       | 116                      |
|  | <u>\$ 21,866</u>          | <u>\$ 25,491</u>         |

The major components of other investments are as follows:

- Investments in limited partnership interests in various affordable housing partnerships, which had a carrying value of \$1.3 million and \$1.4 million, respectively, at September 30, 2007 and December 31, 2006. Equity loss on these limited partnerships was \$0.1 million and \$0.3 million during the first nine months of 2007 and 2006, respectively, 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. The carrying value of this investment was zero and \$0.8 million at September 30, 2007 and December 31, 2006, respectively. During the third quarter of 2007, CIB Marine deemed the entire investment impaired, and an impairment loss of \$0.7 million was recognized. The impairment loss is included in write down and losses on assets.
- 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, 2007 has invested \$0.4 million. In the third quarter of 2007, CIB Marine received a capital distribution of \$0.1 million on its investment in this company. At September 30, 2007 and December 31, 2006, CIB Marine's carrying value of this investment was \$0.1 million and \$0.2 million, respectively.
- During the first quarter of 2007, CIB Marine sold its interest in a publicly traded company and recognized a \$0.2 million gain on the sale. The gain is included in net gain on sale of assets and deposits. CIB Marine's carrying value of this investment at December 31, 2006 was \$0.4 million.

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 and can only be sold back to the institutions or transferred to another member in limited circumstances. In 2005, the FHLB Chicago Board disclosed its decision to discontinue redemption of excess, or voluntary, capital stock. Voluntary stock is stock held by members beyond the amount required as a condition of membership or to support advance borrowings. In April 2006, the FHLB Chicago announced plans to facilitate limited stock redemption requests from its members by issuing bonds. During 2006,

the FHLB Chicago issued a limited amount of bonds to facilitate voluntary capital stock redemptions and CIB Marine sold back \$14.3 million or 55.6% of its holdings. 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 (the "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. In October 2007, the draft Order was finalized and the FHLB Chicago consented to a Cease and Desist Order. The provisions of the October Cease and Desist Order were essentially the same as those of the September 2007 draft Order. As of September 30, 2007, CIB Marine had \$11.5 million in FHLB Chicago stock, of which \$1.7 million was categorized as required.

### Note 9-Short-term Borrowings

The following table presents information regarding short-term borrowings:

|   | September 30, 2007     |       | December 31, 2006 |       |
|---|------------------------|-------|-------------------|-------|
|   | Balance                | Rate  | Balance           | Rate  |
|   | (Dollars in thousands) |       |                   |       |
| Federal funds purchased and securities sold under repurchase agreements | \$34,997               | 4.16% | \$23,625          | 4.79% |
| Treasury, tax, and loan notes   | 2,848                  | 4.58  | 4,028             | 5.04  |
| Federal Home Loan Bank  | <u>34,920</u>          | 5.30  | <u>—</u>          | —     |
| Total short-term borrowings   | <u>\$72,765</u>        | 4.72% | <u>\$27,653</u>   | 4.83% |

CIB Marine is required to maintain qualifying collateral as security for both short-term and long-term FHLB borrowings. 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 \$51.4 million and \$17.9 million at September 30, 2007 and December 31, 2006, respectively. These assets consisted of securities with a market value of \$56.8 million and \$19.9 million at September 30, 2007 and December 31, 2006, respectively.

At both September 30, 2007 and December 31, 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 \$3.4 million and \$4.9 million at September 30, 2007 and December 31, 2006, respectively.

During 2007, the availability of federal funds purchased by certain of CIB Marine's subsidiary banks with correspondent banks continued to be contingent on bank pledges of fixed income investment securities. The credit restrictions in effect at December 31, 2006 at the Federal Reserve Bank's discount window were lifted in the first quarter of 2007.

In 2004, CIB Marine entered into a Written Agreement with the Federal Reserve Bank of Chicago (the "Written Agreement"). Among other items, the Written Agreement requires CIB Marine to obtain Federal Reserve Bank approval before incurring additional borrowings or debt.

### Note 10-Long-term Borrowings

#### FHLB

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:

|       | <u>September 30, 2007</u> |             | <u>December 31, 2006</u> |             | <u>Scheduled</u> | <u>Callable at</u> |
|-------|---------------------------|-------------|--------------------------|-------------|------------------|--------------------|
|       | <u>Balance</u>            | <u>Rate</u> | <u>Balance</u>           | <u>Rate</u> | <u>Maturity</u>  | <u>Par After</u>   |
|       | (Dollars in thousands)    |             |                          |             |                  |                    |
| Total | \$ <u>—</u>               | —%          | \$ <u>2,000</u>          | 5.09%       | 02/20/08         | 02/20/01           |
|       | \$ <u>—</u>               | —%          | \$ <u>2,000</u>          | 5.09%       |                  |                    |

### Junior Subordinated Debentures

The following table presents information regarding CIB Marine's junior subordinated debentures at both September 30, 2007 and December 31, 2006:

|                                      | <u>Balance</u>         | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Callable After</u> |
|--------------------------------------|------------------------|-------------------|----------------------|----------------------|-----------------------|
|                                      | (Dollars in thousands) |                   |                      |                      |                       |
| CIB Marine Capital Trust I           | \$ 10,310              | 03/23/00          | 10.88%               | 03/08/30             | 03/08/10              |
| CIB Statutory Trust III              | 15,464                 | 09/07/00          | 10.60                | 09/07/30             | 09/07/10              |
| CIB Statutory Trust IV               | 15,464                 | 02/22/01          | 10.20                | 02/22/31             | 02/22/11              |
| CIB Statutory Trust V                | <u>20,619</u>          | 09/27/02          | Variable (1)         | 09/27/32             | 09/30/07              |
| Total junior subordinated debentures | <u>\$ 61,857</u>       |                   |                      |                      |                       |

(1) Three-month LIBOR + 3.40% adjusted quarterly.

CIB Marine formed four statutory business trusts for the purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of CIB Marine. The trust preferred securities are fully and unconditionally guaranteed by CIB Marine. The trusts used the proceeds from issuing trust preferred securities and the issuance of its common securities to CIB Marine to purchase the junior subordinated debentures. CIB Marine has the right, at any time, as long as there are no continuing events of default, to defer payments of interest on these borrowings for consecutive periods not exceeding five years; but not beyond the stated maturity. As a result of the Written Agreement, CIB Marine has elected to defer all such interest payments subsequent to December 31, 2003. At September 30, 2007 and December 31, 2006, CIB Marine had accrued interest payable on these borrowings of \$28.0 million and \$21.8 million, respectively. These amounts are included in accrued interest payable on the consolidated balance sheets. Throughout the deferral period, interest on these borrowings continues to accrue. In addition, interest also accrues on all interest that was not paid when due, compounded quarterly or semi-annually. During the deferral period, CIB Marine may not pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment on its stock, or make any payment of principal, interest or premium, or redeem any similar debt securities of CIB Marine, subject to certain limitations.

### Note 11-Other Liabilities

|  | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Accounts payable   | \$ 146                    | \$ 1,408                 |
| Accrual for unfunded commitments and standby letters of credit | 725                       | 725                      |
| Accrued real estate taxes                                      | 153                       | 159                      |
| Accrued compensation and employee benefits                     | 1,329                     | 973                      |
| Accrued professional fees                                      | 595                       | 1,070                    |
| Accrued other expenses   | 578                       | 2,645                    |
| Fair value of derivatives                                      | 13                        | 29                       |
| Other liabilities  | <u>332</u>                | <u>360</u>               |
|  | <u>\$ 3,871</u>           | <u>\$ 7,369</u>          |

Accrued other expenses at December 31, 2006 includes a \$1.8 million contingent liability related to the settlement of the Hadley litigation which was paid during 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 charged-off. Such loans outstanding totaled \$0.1 million at September 30, 2007 and \$0.2 million at December 31, 2006.

### ***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. Since these shares are not directly owned by CIB Marine they are not excluded from the number of shares outstanding.

### ***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 of its bank subsidiaries are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated in accordance with specific instructions included in the regulations: total risk adjusted capital, Tier 1 capital, and Tier 1 leverage ratios. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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, 2007, pursuant to FDIC regulations in 12 C.F.R. Part 325, all of CIB Marine's subsidiary banks were classified as well capitalized.

At both September 30, 2007 and December 31, 2006, CIB Marine was subject to a written agreement ("Written Agreement") it entered into with the Federal Reserve Bank of Chicago in the second quarter of 2004 and Marine Bank was subject to a Memorandum of Understanding ("Memorandum") with the FDIC and its applicable state banking regulator. Additionally, at December 31, 2006, Central Illinois Bank was subject to a Cease and Desist Order ("Order") it consented to with the FDIC and its applicable state banking regulator in the second quarter of 2004. The Order was terminated in January 2007 and replaced with a Memorandum of Understanding (together with the Memorandum, the "Memoranda"). Among other items, the Written Agreement and the Marine Bank Memorandum restrict the payment of cash dividends without prior written consent from the regulators and the Memoranda require the banks to maintain a Tier 1 leverage capital level equal to or exceeding 8% of the bank's total average assets. These restrictions are in force until the Written Agreement and Memoranda are terminated. Failure to comply with the Written Agreement or Memoranda could have a material adverse effect on CIB Marine and its operations. As of September 30, 2007, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Written Agreement or Memoranda.

### Note 13-Loss Per Share Computations

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

|  | <u>Quarter Ended September 30,</u>                      |             | <u>Nine Months Ended</u> |             |
|--|---|-------------|--------------------------|-------------|
|  | <u>2007</u>   | <u>2006</u> | <u>2007</u>              | <u>2006</u> |
|  | (Dollars in thousands, except share and per share data) |             |                          |             |
| Net loss from continuing operations          | \$ (8,679)  | \$ (815)    | \$ (12,336)              | \$ (8,469)  |
| 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 loss:                              |   |             |                          |             |
| Basic  | \$ (0.47)   | \$ (0.04)   | \$ (0.67)                | \$ (0.46)   |
| Effect of dilutive stock options outstanding | —   | —           | —                        | —           |
| Diluted                                      | \$ (0.47)   | \$ (0.04)   | \$ (0.67)                | \$ (0.46)   |

Because CIB Marine had a net loss from continuing operations in each of the quarters and the nine months ended September 30, 2007 and 2006, options to purchase 1,146,363; 891,738; 1,141,779; and 584,411 shares, respectively, were excluded from the calculation of diluted loss per share since their assumed exercise would be anti-dilutive.

### Note 14-Subsequent Events

#### *Regulatory Orders and Agreements*

The Memoranda at Central Illinois Bank and Marine Bank were terminated in December 2007 and January 2008, respectively, after which none of the subsidiary banks were party to any formal or informal regulatory agreement or order.

#### *FHLB Stock Investment*

In October 2007, the FHLB Chicago filed a Form 8-K with the SEC outlining a Cease and Desist Order issued by the Federal Housing Finance Board which will guide the FHLB Chicago's operations going forward. In addition to several required actions and restrictions agreed to in the Cease and Desist Order, the Cease and Desist Order also requires the FHLB Chicago to obtain prior written approval from the Federal Housing Finance Board for the redemption or repurchase of any capital stock from members and the payment of any dividends to its shareholders. The FHLB Chicago stated that it will continue to provide to its members liquidity and funding through advances and the purchase of mortgages, and continue to support affordable housing and economic development. CIB Marine is a member, shareholder and customer of FHLB Chicago currently utilizing advances from the FHLB Chicago to assist in meeting the funding and liquidity needs of the subsidiary banks of CIB Marine. In October 2007 and January 2008, the FHLB Chicago announced it would not declare a dividend for the third or fourth quarters of 2007 respectively. At December 31, 2007, CIB Marine had \$11.5 million in FHLB Chicago stock, of which \$4.0 million was categorized as required as defined in Note 8-Other Assets.

#### *Loan Pool Purchase*

In the last 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 housing finance markets. At September 30, 2007 and December 31, 2007, the balance of these loans was \$77.5 million and \$73.0 million, respectively, and the allowance for loan loss allocated to these loans was \$4.3 million and \$5.3 million, or 5.5% and 7.3%, respectively, of the outstanding balance of these loans. Additionally, at September 30, 2007 and December 31, 2007, \$1.1 million and \$2.4 million, respectively of these loans were classified as nonaccrual.

### ***Branch Activities***

During the fourth quarter of 2007, Marine Bank closed its Milwaukee, Wisconsin branch which had total deposits of \$13.6 million at September 30, 2007. Deposits of the closed branch were transferred to other Marine Bank branches.

### ***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. Although CIB Marine did not report taxable income during these periods, penalties and interest may still be assessed by the Internal Revenue Service and/or applicable state departments of revenue. As of the first quarter of 2008, CIB Marine was current with all its federal and state tax return filings.

### ***Municipal Bond Insurer Rating Downgrades***

Since December 31, 2007, due to economic conditions, several nationally recognized rating agencies downgraded the credit ratings of several of the investment grade credit insuring companies. Several of the downgraded companies insure municipal obligation investments owned by CIB Marine. The municipal obligations have a par value of \$16.5 million and a fair value of \$16.4 million as of December 31, 2007. CIB Marine has not recognized any impairment on these affected municipal obligations and the securities are still considered investment grade quality as rated by the rating agencies.

### ***MICR***

At both September 30, 2007 and December 31, 2007, the remaining net liabilities of MICR consisted of income taxes payable to its parent. In January 2008, MICR filed Articles of Dissolution.

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

CIB Marine currently plans to hold its 2008 annual meeting of shareholders on May 29, 2008. Any holder of common stock who wishes to submit a proposal to be included in CIB Marine's proxy materials in connection with the 2008 annual meeting must submit the proposal to CIB Marine's Secretary and General Counsel, Daniel Rasmussen, by April 2, 2008. The holder submitting the proposal must have owned common stock having a value of at least \$2,000 for at least one year prior to submitting the proposal and represent to CIB Marine that the holder intends to hold those shares of common stock through the date of the 2008 annual meeting.

The following discussion and analysis presents CIB Marine's consolidated financial condition as of September 30, 2007 and results of operations for the quarter and nine months ended September 30, 2007. 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, 2006.

### **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, 2006, 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.

## **Results of Operations**

### *Overview*

During the first nine months of 2007, CIB Marine continued its expense management initiatives and took a number of steps to return to profitability, including focusing on top-line revenue growth by expanding lending products, purchasing pools of prime home equity loans and attracting experienced commercial bankers. In addition, Marine Bank sold two of its branches. CIB Marine continued the wind down of the remaining business affairs of its discontinued operations which are comprised of MICR; MSI; and CIB Construction, including its subsidiary, Canron, which is in voluntary liquidation.

During the third quarter of 2007, CIB Marine had net losses of \$8.7 million compared to net losses of \$0.4 million during the same period in 2006. Loss from continuing operations increased \$7.9 million from \$0.8 million during the third quarter of 2006 to \$8.7 million during the third quarter of 2007 and net income from discontinued operations decreased \$0.4 million during the same period. The \$7.9 million increase in net loss from continuing operations was primarily due to a \$5.8 million provision for credit losses taken in the third quarter of 2007 as compared to a negative \$1.1 million provision during the second quarter of 2006 and a \$0.1 million loss recognized on the sale of assets and deposits during the third quarter of 2007 compared to a \$1.1 million gain recognized during the same period of 2006. These amounts were partially offset by a \$0.7 million reduction in noninterest expense resulting from management initiatives and branch sales and closings.

Diluted loss per share increased \$0.46 from (\$0.02) for the third quarter of 2006 to (\$0.48) for the third quarter of 2007. The loss on average assets from continuing operations was (3.61%) for the third quarter of 2007, compared to (0.31%) for the third quarter of 2006. The loss on average equity from continuing operations was (50.45%) for the third quarter of 2007, compared to (4.57%) for the third quarter of 2006.

CIB Marine's net loss increased \$2.8 million from a net loss of \$8.0 million for the nine months ended September 30, 2006 to a net loss of \$10.8 million for the nine months ended September 30, 2007. Loss from continuing operations increased from \$8.5 million to \$12.3 million for the nine months ended September 30, 2006 and 2007, respectively. Net income from discontinued operations increased \$1.1 million from \$0.4 million to \$1.5 million during the same respective periods. The increase was mainly due to a \$1.3 million partial reversal of a tax exposure item related to a subsidiary CIB Marine sold in 2004. See Note 1-Basis of Presentation in Part I, Item 1 of this Form 10-Q for further information on this tax exposure item

The increase in loss from continuing operations for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006 was driven by a change in the provision for loan loss from a negative \$3.4 million for the nine months ended September 30, 2006 to a provision of \$5.8 million for the same period in 2007 and a \$0.7 million decrease in gain on sale of assets and deposits between the respective periods, partially offset by a \$6.3 million decrease in noninterest expense. The \$6.3 million decrease in noninterest expense was driven by a \$3.0 million decrease in other noninterest expense primarily due to a \$1.8 million contingent liability expense in the first quarter of 2006 related to the Hadley litigation (see Item 1-Legal Proceedings in Part II of this Form 10-Q for further information regarding this litigation); a \$1.1 million securities impairment recognized during the first nine months of 2006 compared to none recognized during the same period of 2007; a \$2.0 million decrease in compensation and employee benefits due to management initiatives and branch closings and sales; and a \$0.5 million decrease in professional fees.

Diluted loss per share increased \$0.15 from (\$0.44) for the nine months ended September 30, 2006 to (\$0.59) for

the nine months ended September 30, 2007. The loss on average assets from continuing operations was (1.71%) for the nine months ended September 30, 2007, compared to (1.06%) for the same period of 2006. The loss on average equity from continuing operations was (23.58%) for the nine months ended September 30, 2007, compared to (15.59%) for the same period of 2006.

CIB Marine had 26 banking facilities at September 30, 2007, and 30 at December 31, 2006; and 263 full-time equivalent employees at September 30, 2007 compared to 301 at December 31, 2006.

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

### Selected Unaudited Consolidated Financial Data

|   | <u>At or For the Quarter</u><br><u>Ended September 30,</u> |                  | <u>At or For the Nine Months</u><br><u>Ended September 30,</u> |                   |
|---|--|------------------|--|-------------------|
|   | <u>2007</u>  | <u>2006</u>      | <u>2007</u>  | <u>2006</u>       |
|   | (Dollars in thousands, except share and per share data)    |                  |  |                   |
| <b>Selected Statements of Operations Data</b>   |  |                  |  |                   |
| Interest and dividend income  | \$ 15,688  | \$ 15,952        | \$ 46,864  | \$ 45,336         |
| Interest expense  | <u>10,018</u>  | <u>9,975</u>     | <u>29,653</u>  | <u>28,168</u>     |
| Net interest income   | 5,670  | 5,977            | 17,211   | 17,168            |
| Provision for (reversal of) credit losses   | <u>5,834</u>   | <u>(1,079)</u>   | <u>5,847</u>   | <u>(3,364)</u>    |
| Net interest income (loss) after provision for credit losses  | (164)  | 7,056            | 11,364   | 20,532            |
| Noninterest income  | 227  | 1,583            | 2,624  | 3,414             |
| Noninterest expense   | <u>8,742</u>   | <u>9,401</u>     | <u>26,321</u>  | <u>32,593</u>     |
| Loss from continuing operations before income taxes   | (8,679)  | (762)            | (12,333)   | (8,647)           |
| Income tax expense (benefit)  | <u>—</u>   | <u>53</u>        | <u>3</u>   | <u>(178)</u>      |
| <b>Net loss from continuing operations</b>  | <u>(8,679)</u>   | <u>(815)</u>     | <u>(12,336)</u>  | <u>(8,469)</u>    |
| Discontinued operations:  |  |                  |  |                   |
| Pretax income from discontinued operations  | 8  | 332              | 411  | 619               |
| Income tax expense (benefit)  | <u>70</u>  | <u>(53)</u>      | <u>207</u>   | <u>178</u>        |
| Net income (loss) from discontinued operations  | (62)   | 385              | 204  | 441               |
| <b>Net loss</b>   | <u>\$ (8,741)</u>  | <u>\$ (430)</u>  | <u>\$ (12,132)</u>   | <u>\$ (8,028)</u> |
| <b>Common Share Data</b>  |  |                  |  |                   |
| Basic earnings (loss) per share:  |  |                  |  |                   |
| Loss from continuing operations   | \$ (0.47)  | \$ (0.04)        | \$ (0.67)  | \$ (0.46)         |
| Discontinued operations   | <u>(0.01)</u>  | <u>0.02</u>      | <u>0.01</u>  | <u>0.02</u>       |
| Net loss  | <u>\$ (0.48)</u>   | <u>\$ (0.02)</u> | <u>\$ (0.66)</u>   | <u>\$ (0.44)</u>  |
| Diluted earnings (loss) per share:  |  |                  |  |                   |
| Loss from continuing operations   | \$ (0.47)  | \$ (0.04)        | \$ (0.67)  | \$ (0.46)         |
| Discontinued operations   | <u>(0.01)</u>  | <u>0.02</u>      | <u>0.01</u>  | <u>0.02</u>       |
| Net loss  | <u>\$ (0.48)</u>   | <u>\$ (0.02)</u> | <u>\$ (0.66)</u>   | <u>\$ (0.44)</u>  |
| Dividends   | —  | —                | —  | —                 |
| Book value per share  | \$ 3.34  | \$ 3.95          | \$ 3.34  | \$ 3.95           |
| 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 (less assets of companies held for disposal)   | \$ 979,629   | \$ 1,026,274     | \$ 979,629   | \$ 1,026,274      |
| Loans   | 604,148  | 553,713          | 604,148  | 553,713           |
| Allowance for loan losses   | (25,582)   | (22,109)         | (25,582)   | (22,109)          |
| Securities  | 283,821  | 366,658          | 283,821  | 366,658           |
| Deposits  | 747,421  | 752,154          | 747,421  | 752,154           |
| Deposits of branches held for sale  | —  | 75,325           | —  | 75,325            |
| Borrowings, including junior subordinated debentures  | 134,622  | 94,074           | 134,622  | 94,074            |
| Stockholders' equity  | 61,322   | 72,480           | 61,322   | 72,480            |
| <b>Financial Ratios and Other Data</b>  |  |                  |  |                   |
| Performance ratios:   |  |                  |  |                   |
| Net interest margin (1)   | 2.43%  | 2.38%            | 2.45%  | 2.23%             |
| Net interest spread (2)   | 1.58   | 1.63             | 1.62   | 1.56              |
| Noninterest income to average assets (3)  | 0.09   | 0.61             | 0.36   | 0.43              |
| Noninterest expense to average assets   | 3.63   | 3.60             | 3.54   | 4.10              |
| Efficiency ratio (4)  | 148.24   | 124.35           | 128.96   | 158.36            |
| Loss on average assets (5)  | (3.61)   | (0.31)           | (1.71)   | (1.06)            |
| Loss on average equity (6)  | (50.45)  | (4.57)           | (23.58)  | (15.59)           |
| Asset quality ratios:   |  |                  |  |                   |
| Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans | 4.53%  | 4.25%            | 4.53%  | 4.25%             |
| Nonperforming assets and loans 90 days or more past due and still accruing to total assets                | 2.91   | 2.30             | 2.91   | 2.30              |

|  | At or For the Quarter<br>Ended September 30,            |        | At or For the Nine Months<br>Ended September 30, |        |
|--|---|--------|--|--------|
|  | 2007  | 2006   | 2007   | 2006   |
|  | (Dollars in thousands, except share and per share data) |        |  |        |
| Allowance for loan losses to total loans   | 4.23  | 3.99   | 4.23   | 3.99   |
| Allowance for loan losses to nonaccrual loans, restructured loans<br>and loans 90 days or more past due and still accruing | 93.42   | 93.99  | 93.42  | 93.99  |
| Net recoveries annualized to average loans   | 0.85  | (0.06) | 0.27   | (0.15) |
| Capital ratios:  |   |        |  |        |
| Total equity to total assets   | 6.26%   | 7.06%  | 6.26%  | 7.06%  |
| Total risk-based capital ratio   | 18.03   | 20.15  | 18.03  | 20.15  |
| Tier 1 risk-based capital ratio  | 11.32   | 13.82  | 11.32  | 13.82  |
| Leverage capital ratio   | 8.62  | 9.48   | 8.62   | 9.48   |
| Other data:  |   |        |  |        |
| Number of employees (full-time equivalent) (7)   | 263   | 297    | 263  | 297    |
| Number of banking facilities   | 26  | 32     | 26   | 32     |

- (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, 2007 and 2006, no U.S. federal or state loss carryback potential remains. Accordingly, the 2007 and 2006 interest income on tax-exempt earning assets has not been adjusted to reflect the tax-equivalent basis. If 2007 and 2006 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.44% and 2.43% for the quarter ended and 2.49% and 2.29% for the nine months ended September 30, 2007 and 2006, 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 aggregate full-time equivalent employees of 2 in 2007 and 2006.

### Net Interest Income

The following tables set forth average balance sheet data, 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 2007 and 2006 has not been adjusted to reflect the tax-equivalent basis. See the Income Tax discussion for additional information.

|  | Quarter Ended September 30, |                             |                           |                     |                             |                           |
|--|-----------------------------|-----------------------------|---------------------------|---------------------|-----------------------------|---------------------------|
|  | 2007                        |                             |                           | 2006                |                             |                           |
|  | Average<br>Balance          | Interest<br>Earned/<br>Paid | Average<br>Yield/<br>Cost | Average<br>Balance  | Interest<br>Earned/<br>Paid | Average<br>Yield/<br>Cost |
|  | (Dollars in thousands)      |                             |                           |                     |                             |                           |
| <b>Assets</b>                                |                             |                             |                           |                     |                             |                           |
| <b>Interest-earning assets</b>               |                             |                             |                           |                     |                             |                           |
| Securities (1):                              |                             |                             |                           |                     |                             |                           |
| Taxable                                      | \$ 283,037                  | \$ 3,436                    | 4.86%                     | \$ 383,932          | \$ 4,658                    | 4.85%                     |
| Tax-exempt (2)                               | 1,565                       | 21                          | 5.37                      | 3,552               | 40                          | 4.50                      |
| Total securities                             | 284,602                     | 3,457                       | 4.86                      | 387,484             | 4,698                       | 4.85                      |
| Loans held for sale                          | 92                          | 2                           | 8.62                      | 56                  | 1                           | 7.08                      |
| Loans(3)(4):                                 |                             |                             |                           |                     |                             |                           |
| Commercial                                   | 66,682                      | 1,453                       | 8.64                      | 52,756              | 935                         | 7.03                      |
| Commercial real estate                       | 407,909                     | 7,520                       | 7.31                      | 418,154             | 7,775                       | 7.38                      |
| Consumer                                     | 120,580                     | 2,538                       | 8.35                      | 74,150              | 1,564                       | 8.37                      |
| Total loans                                  | 595,171                     | 11,511                      | 7.67                      | 545,060             | 10,274                      | 7.48                      |
| Federal funds sold                           | 49,437                      | 718                         | 5.76                      | 69,059              | 979                         | 5.62                      |
| Total interest-earning assets                | 929,302                     | 15,688                      | 6.71                      | 1,001,659           | 15,952                      | 6.33                      |
| <b>Noninterest-earning assets</b>            |                             |                             |                           |                     |                             |                           |
| Cash and due from banks                      | 16,811                      |                             |                           | 22,817              |                             |                           |
| Premises and equipment(5)                    | 9,493                       |                             |                           | 12,389              |                             |                           |
| Allowance for loan losses                    | (20,543)                    |                             |                           | (22,455)            |                             |                           |
| Receivables from sale of stock               | (121)                       |                             |                           | (151)               |                             |                           |
| Accrued interest receivable and other assets | 19,967                      |                             |                           | 23,038              |                             |                           |
| Total noninterest-earning assets             | 25,607                      |                             |                           | 35,638              |                             |                           |
| Total assets                                 | <u>\$ 954,909</u>           |                             |                           | <u>\$ 1,037,297</u> |                             |                           |
| <b>Liabilities and Stockholders' Equity</b>  |                             |                             |                           |                     |                             |                           |
| <b>Interest-bearing liabilities</b>          |                             |                             |                           |                     |                             |                           |
| Deposits:                                    |                             |                             |                           |                     |                             |                           |

|   |                   |                 |              |                     |                 |              |
|---|-------------------|-----------------|--------------|---------------------|-----------------|--------------|
| Interest-bearing demand deposits  | \$ 35,012         | \$ 92           | 1.04%        | \$ 39,756           | \$ 103          | 1.03%        |
| Money market  | 168,446           | 1,774           | 4.18         | 192,651             | 2,095           | 4.31         |
| Other savings deposits  | 14,688            | 37              | 1.00         | 21,400              | 54              | 1.00         |
| Time deposits (6)   | <u>458,898</u>    | <u>5,535</u>    | <u>4.79</u>  | <u>491,686</u>      | <u>5,307</u>    | <u>4.28</u>  |
| Total interest-bearing deposits(5)  | 677,044           | 7,438           | 4.36         | 745,493             | 7,559           | 4.02         |
| Borrowings-short-term   | 37,989            | 415             | 4.33         | 32,767              | 404             | 4.89         |
| Borrowings-long-term  | —                 | —               | —            | 2,913               | 37              | 5.04         |
| Junior subordinated debentures  | <u>61,857</u>     | <u>2,165</u>    | <u>14.00</u> | <u>61,857</u>       | <u>1,975</u>    | <u>12.77</u> |
| Total borrowed funds  | <u>99,846</u>     | <u>2,580</u>    | <u>10.32</u> | <u>97,537</u>       | <u>2,416</u>    | <u>9.89</u>  |
| Total interest-bearing liabilities  | 776,890           | 10,018          | 5.13         | 843,030             | 9,975           | 4.70         |
| <b>Noninterest-bearing liabilities</b>  |                   |                 |              |                     |                 |              |
| Noninterest-bearing demand deposits(5)  | 72,737            |                 |              | 91,208              |                 |              |
| Accrued interest and other liabilities  | <u>37,035</u>     |                 |              | <u>32,346</u>       |                 |              |
| Total noninterest-bearing liabilities   | <u>109,772</u>    |                 |              | <u>123,554</u>      |                 |              |
| Total liabilities   | 886,662           |                 |              | 996,584             |                 |              |
| Stockholders' equity  | <u>68,247</u>     |                 |              | <u>70,713</u>       |                 |              |
| Total liabilities and stockholders' equity  | <u>\$ 954,909</u> |                 |              | <u>\$ 1,037,297</u> |                 |              |
| <b>Net interest income and net interest rate spread(2)(7)</b>                           |                   | <u>\$ 5,670</u> | <u>1.58%</u> |                     | <u>\$ 5,977</u> | <u>1.63%</u> |
| <b>Net interest-earning assets</b>  | <u>\$ 152,412</u> |                 |              | <u>\$ 158,629</u>   |                 |              |
| <b>Net interest margin (2)(8)</b>   |                   |                 | <u>2.43%</u> |                     |                 | <u>2.38%</u> |
| <b>Ratio of average interest-earning assets to average interest-bearing liabilities</b> |                   | <u>1.20</u>     |              |                     | <u>1.19</u>     |              |

- (1) Federal Home Loan Bank stock and Federal Reserve Bank stock are included in average balance and yields
- (2) 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, 2007 and 2006, no U.S. federal or state loss carryback potential remains. Accordingly, 2007 and 2006 are not presented on a tax-equivalent basis. If 2007 and 2006 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.44% and 2.43% for 2007 and 2006, respectively.
- (3) Loan balance totals include nonaccrual loans.
- (4) Interest earned on loans includes amortized loan fees of \$0.1 million and \$0.2 million for the quarters ended September 30, 2007 and 2006, respectively.
- (5) Includes fixed assets and deposits of branches held for sale or sold during 2007 and 2006.
- (6) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.
- (7) Net interest rate spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.
- (8) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

|  | Nine Months Ended September 30, |                      |                    |                     |                      |                    |
|--|---------------------------------|----------------------|--------------------|---------------------|----------------------|--------------------|
|  | 2007                            |                      |                    | 2006                |                      |                    |
|  | 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 (1):                              |                                 |                      |                    |                     |                      |                    |
| Taxable                                      | \$ 297,485                      | \$ 10,922            | 4.90%              | \$ 422,031          | \$ 14,161            | 4.47%              |
| Tax-exempt (2)                               | <u>1,653</u>                    | <u>63</u>            | <u>5.08</u>        | <u>3,834</u>        | <u>129</u>           | <u>4.49</u>        |
| Total securities                             | 299,138                         | 10,985               | 4.90               | 425,865             | 14,290               | 4.47               |
| Loans held for sale                          | 76                              | 4                    | 7.04               | 19                  | 1                    | 7.04               |
| Loans(3)(4):                                 |                                 |                      |                    |                     |                      |                    |
| Commercial                                   | 59,474                          | 3,495                | 7.86               | 57,800              | 2,922                | 6.76               |
| Commercial real estate                       | 410,624                         | 23,112               | 7.53               | 417,683             | 22,386               | 7.17               |
| Consumer                                     | <u>108,255</u>                  | <u>6,767</u>         | <u>8.36</u>        | <u>43,575</u>       | <u>2,534</u>         | <u>7.77</u>        |
| Total loans                                  | 578,353                         | 33,374               | 7.72               | 519,058             | 27,842               | 7.17               |
| Federal funds sold                           | <u>59,896</u>                   | <u>2,501</u>         | <u>5.58</u>        | <u>81,385</u>       | <u>3,203</u>         | <u>5.26</u>        |
| Total interest-earning assets                | 937,463                         | 46,864               | 6.68               | 1,026,327           | 45,336               | 5.90               |
| <b>Noninterest-earning assets</b>            |                                 |                      |                    |                     |                      |                    |
| Cash and due from banks                      | 17,873                          |                      |                    | 23,483              |                      |                    |
| Premises and equipment(5)                    | 10,340                          |                      |                    | 12,972              |                      |                    |
| Allowance for loan losses                    | (20,905)                        |                      |                    | (23,407)            |                      |                    |
| Receivables from sale of stock               | (129)                           |                      |                    | (184)               |                      |                    |
| Accrued interest receivable and other assets | <u>20,665</u>                   |                      |                    | <u>24,140</u>       |                      |                    |
| Total noninterest-earning assets             | <u>27,844</u>                   |                      |                    | <u>37,004</u>       |                      |                    |
| Total assets                                 | <u>\$ 965,307</u>               |                      |                    | <u>\$ 1,063,331</u> |                      |                    |
| <b>Liabilities and Stockholders' Equity</b>  |                                 |                      |                    |                     |                      |                    |
| <b>Interest-bearing liabilities</b>          |                                 |                      |                    |                     |                      |                    |
| Deposits:                                    |                                 |                      |                    |                     |                      |                    |
| Interest-bearing demand deposits             | \$ 36,386                       | \$ 271               | 1.00%              | \$ 44,580           | \$ 334               | 1.00%              |
| Money market                                 | 172,534                         | 5,348                | 4.14               | 197,894             | 5,821                | 3.93               |
| Other savings deposits                       | 15,611                          | 116                  | 0.99               | 23,287              | 175                  | 1.00               |
| Time deposits(6)                             | <u>467,651</u>                  | <u>16,553</u>        | <u>4.73</u>        | <u>511,120</u>      | <u>15,177</u>        | <u>3.97</u>        |
| Total interest-bearing deposits(5)           | 692,182                         | 22,288               | 4.31               | 776,881             | 21,507               | 3.70               |
| Borrowings-short-term                        | 29,405                          | 1,016                | 4.62               | 22,516              | 728                  | 4.32               |

|   |                   |                  |              |                     |                  |              |
|---|-------------------|------------------|--------------|---------------------|------------------|--------------|
| Borrowings-long-term  | 366               | 14               | 5.11         | 5,788               | 219              | 5.06         |
| Junior subordinated debentures  | <u>61,857</u>     | <u>6,335</u>     | <u>13.66</u> | <u>61,857</u>       | <u>5,714</u>     | <u>12.32</u> |
| Total borrowed funds  | <u>91,628</u>     | <u>7,365</u>     | <u>10.72</u> | <u>90,161</u>       | <u>6,661</u>     | <u>9.85</u>  |
| Total interest-bearing liabilities  | 783,810           | 29,653           | 5.06         | 867,042             | 28,168           | 4.34         |
| <b>Noninterest-bearing liabilities</b>  |                   |                  |              |                     |                  |              |
| Noninterest-bearing demand deposits(5)  | 76,447            |                  |              | 93,544              |                  |              |
| Accrued interest and other liabilities  | <u>35,104</u>     |                  |              | <u>30,092</u>       |                  |              |
| Total noninterest-bearing liabilities   | <u>111,551</u>    |                  |              | <u>123,636</u>      |                  |              |
| Total liabilities   | 895,361           |                  |              | 990,678             |                  |              |
| Stockholders' equity  | <u>69,946</u>     |                  |              | <u>72,653</u>       |                  |              |
| Total liabilities and stockholders' equity  | <u>\$ 965,307</u> |                  |              | <u>\$ 1,063,331</u> |                  |              |
| <b>Net interest income and net interest rate spread(2)(7)</b>                           |                   | <u>\$ 17,211</u> | <u>1.62%</u> |                     | <u>\$ 17,168</u> | <u>1.56%</u> |
| <b>Net interest-earning assets</b>  | <u>\$ 153,653</u> |                  |              | <u>\$ 159,285</u>   |                  |              |
| <b>Net interest margin (2)(8)</b>   |                   |                  | <u>2.45%</u> |                     |                  | <u>2.23%</u> |
| <b>Ratio of average interest-earning assets to average interest-bearing liabilities</b> |                   | <u>1.20</u>      |              |                     | <u>1.18</u>      |              |

- (1) Federal Home Loan Bank stock and Federal Reserve Bank stock are included in average balance and yields.
- (2) 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, 2007 and 2006, no U.S. federal or state loss carryback potential remains. Accordingly, 2007 and 2006 are not presented on a tax-equivalent basis. If 2007 and 2006 had been shown on a tax-equivalent basis of 35%, the net interest margin would have been 2.49% and 2.29%, respectively.
- (3) Loan balance totals include nonaccrual loans.
- (4) Interest earned on loans includes amortized loan fees of \$0.4 million for both the nine months ended September 30, 2007 and 2006.
- (5) Includes fixed assets and deposits of branches held for sale or sold during 2007 and 2006.
- (6) Interest rates and amounts include the effects of derivatives entered into for interest rate risk management and accounted for as fair value hedges.
- (7) Net interest rate spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.
- (8) Net interest margin is the ratio of annualized net interest income, on a tax-equivalent basis, to average interest-earning assets.

Net interest income decreased \$0.3 million, or 5.1%, from \$6.0 million for the third quarter of 2006 to \$5.7 million for the third quarter of 2007. The decrease was mainly attributable to the change in rates paid on liabilities relative to those earned on assets. Net interest income was \$17.2 million for both nine months ended September 30, 2007 and 2006.

Total interest income decreased \$0.3 million, or 1.7%, from \$16.0 million in the third quarter of 2006 to \$15.7 million in the third quarter of 2007. The majority of the decrease in interest income was driven by a decrease in interest on investment securities. This decrease was caused by a reduction in average balances of investment securities, as CIB Marine used the proceeds from sales of securities and repayments to offset reduced deposits and invest in higher yielding loan assets. The decrease in interest on investment securities was largely offset by a \$1.2 million increase in interest on loans. The increase in interest on loans was mainly due to the purchase of fixed rate second lien home equity loans. Overall the average balance of interest-earning assets decreased by \$72.4 million between 2006 and 2007. The average yield of those assets, however, increased 38 basis points.

Total interest income increased \$1.5 million, or 3.4%, from \$45.3 million for the nine months ended September 30, 2006 to \$46.9 million for the nine months ended September 30, 2007. The increase was due to a 78 basis point increase in the average yield of interest-earning assets, partially offset by a \$88.9 million decrease in the average balance of these assets. The largest increase in interest income came from interest on loans, which increased by \$5.5 million, or 19.9%, from \$27.8 million during the nine months ended September 30, 2006 to \$33.4 million during the same period in 2007. The increase in loan interest income was primarily due to a 55 basis point increase in average yield and a \$59.3 million increase in the average balance resulting from the rising rate environment and the purchase during the second quarter of 2006 and the first quarter of 2007 of two pools of fixed rate second lien home equity loans. The increase in interest income on loans was partially offset by a \$3.3 million decrease in interest income on investment securities due to decreased average balances on investment securities, partially offset by rising yields on such securities.

Total interest expense was \$10.0 million for both the third quarter of 2007 and 2006. While average interest-bearing liabilities declined by \$66.1 million during the third quarter of 2007 as compared to the same period of 2006, the resulting decrease in interest expense was offset by a 43 basis point increase in the average cost of such liabilities.

For the nine-month period ended September 30, 2007, total interest expense increased \$1.5 million, or 5.3%, from \$28.2 million for the nine months ended September 30, 2006 to \$29.7 million for the comparable period in

2007. This increase was the result of a \$0.8 million increase in interest expense on deposits due to an 61 basis point increase in the average cost during a rising rate environment, partially offset by a \$84.7 million decrease in the average balance of interest-bearing deposits. Additionally, interest expense from borrowings increased \$0.7 million mainly due to higher costs in a rising interest rate environment and the compounding effect of interest payment deferrals on junior subordinated debentures. CIB Marine elected to defer all interest payments of its junior subordinated debentures starting in 2004. Interest accrues on each of the deferred payments at the coupon rate of the debentures, creating a compounding effect for the interest expense of the debentures. This causes interest expense for the debentures to increase each year and become an increasing percentage of total interest expense and total average interest-bearing liabilities. In addition, the total average earning assets have decreased making the interest expense burden of the debentures even greater.

CIB Marine's net interest spread decreased 5 basis points from 1.63% for the third quarter of 2006 to 1.58% for the third quarter of 2007. The net interest spread for the nine months ended September 30, 2007 compared to the same period in 2006 increased by 6 basis points. The net interest margin increased 5 basis points from 2.38% for the third quarter of 2006 to 2.43% for the third quarter of 2007 and increased by 22 basis points from 2.23% for the nine months ended September 30, 2006 to 2.45% for the nine months ended September 30, 2007. The increase in the net interest margin was primarily due to rising yields on assets funded by noninterest bearing funding sources.

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:

|                                  | Quarter Ended September 30, 2007 Compared to<br>Quarter Ended September 30, 2006(3) |                 |                 |                | Nine Months Ended September 30, 2007 Compared to<br>Nine Months Ended September 30, 2006(3) |                 |              |              |
|----------------------------------|---|-----------------|-----------------|----------------|---|-----------------|--------------|--------------|
|                                  | Volume  | Rate            | Total           | % Change       | Volume  | Rate            | Total        | % Change     |
|                                  | (Dollars in thousands)  |                 |                 |                |   |                 |              |              |
| <b>Interest Income</b>           |   |                 |                 |                |   |                 |              |              |
| Securities-taxable               | \$ (1,225)  | \$ 3            | \$ (1,222)      | (26.23)%       | \$ (4,478)  | \$ 1,239        | \$ (3,239)   | (22.87)%     |
| Securities-tax-exempt (1)        | (26)  | 7               | (19)            | (47.50)        | (81)  | 15              | (66)         | (51.16)      |
| Total securities (1)             | (1,251)   | 10              | (1,241)         | (26.42)        | (4,559)   | 1,254           | (3,305)      | (23.13)      |
| Loans held for sale              | 1   | —               | 1               | 100.00         | 3   | —               | 3            | 300.00       |
| Commercial                       | 276   | 242             | 518             | 55.40          | 86  | 487             | 573          | 19.61        |
| Commercial real estate           | (190)   | (65)            | (255)           | (3.28)         | (383)   | 1,109           | 726          | 3.24         |
| Consumer                         | 977   | (3)             | 974             | 62.28          | 4,029   | 204             | 4,233        | 167.05       |
| Total loans (including fees)     | 1,063   | 174             | 1,237           | 12.04          | 3,732   | 1,800           | 5,532        | 19.87        |
| Federal funds sold               | (284)   | 23              | (261)           | (26.66)        | (887)   | 185             | (702)        | (21.92)      |
| Total interest income (1)        | (471)   | 207             | (264)           | (1.64)         | (1,711)   | 3,239           | 1,528        | 3.37         |
| <b>Interest Expense</b>          |   |                 |                 |                |   |                 |              |              |
| Interest-bearing demand deposits | (12)  | 1               | (11)            | (10.68)        | (61)  | (2)             | (63)         | (18.86)      |
| Money market                     | (256)   | (65)            | (321)           | (15.32)        | (774)   | 301             | (473)        | (8.13)       |
| Other savings deposits           | (17)  | —               | (17)            | (31.48)        | (57)  | (2)             | (59)         | (33.71)      |
| Time deposits                    | (368)   | 596             | 228             | 4.30           | (1,367)   | 2,743           | 1,376        | 9.07         |
| Total deposits                   | (653)   | 532             | (121)           | (1.60)         | (2,259)   | 3,040           | 781          | 3.63         |
| Borrowings-short-term            | 60  | (49)            | 11              | 2.72           | 235   | 53              | 288          | 39.56        |
| Borrowings-long-term             | (37)  | —               | (37)            | (100.00)       | (207)   | 2               | (205)        | (93.61)      |
| Junior subordinated debentures   | —   | 190             | 190             | 9.62           | —   | 621             | 621          | 10.87        |
| Total borrowed funds             | 23  | 141             | 164             | 6.79           | 28  | 676             | 704          | 10.57        |
| Total interest expense           | (630)   | 673             | 43              | 0.43           | (2,231)   | 3,716           | 1,485        | 5.27         |
| <b>Net interest income (1)</b>   | <u>\$ 159</u>   | <u>\$ (466)</u> | <u>\$ (307)</u> | <u>(5.14)%</u> | <u>\$ 520</u>   | <u>\$ (477)</u> | <u>\$ 43</u> | <u>0.25%</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, 2007 and 2006, no U.S. federal or state loss carryback potential remains. Accordingly, 2007 and 2006 are not presented on a tax-equivalent basis.
- (2) Federal Home Loan Bank stock and Federal Reserve Bank stock are included in average balance and yields.
- (3) 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.

### **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 loss contingencies for unfunded commitments and standby letters of credit. The provision for credit losses was \$5.8 million for the third quarter of 2007, compared to a negative \$1.1 million for the same period of 2006. For the nine-month period ended September 30, 2007, the provision for credit losses was \$5.8 million, compared to a negative \$3.4 million for the same period of 2006. The change in the provision was primarily due to an increase in the cumulative total of commercial, commercial real estate and commercial real estate construction loans during the first nine months of 2007 as compared to a decrease in the cumulative total of these loans during the same period of 2006; a \$3.6 million increase in nonaccrual loans during the first nine months of 2007 compared to a \$7.8 million decrease in these loans during the same period of 2006; and net charge-offs compared to net recoveries

during the same respective periods. Additionally, during the first nine months of 2007, CIB Marine increased its provision related to home equity loans to account for the purchase of a \$48.2 million closed end pool of fixed rate second lien home equity loans in February 2007, and to account for the third quarter deterioration in this pool and a similar \$47.8 million pool it purchased in June 2006.

At September 30, 2007, CIB Marine had a \$77.5 million principal balance remaining on the \$96.0 million closed end second lien home equity loan pools. The quality of the loan pools deteriorated in part due to the deterioration in the housing market and the sudden and significant tightening of credit standards and reduction in credit availability in the mortgage finance markets beginning in the third quarter of 2007. The ratio of total loans past due 30 days or more, including nonaccrual loans, to outstanding principal balances of these two pools was 1.7% and 4.4%, at December 31, 2006 and September 30, 2007, respectively. Due to this deterioration and the purchase of the \$48.2 million pool in February 2007, the provision for credit losses related to these pools increased from a negative \$0.1 million and a \$0.8 million provision, respectively, for the quarter and nine months ended September 30, 2006 to provisions of \$2.4 million and \$4.0 million for the same respective periods of 2007.

Net charge-offs for the quarter and nine months ended September 30, 2007 were \$1.3 million and \$1.2 million, respectively, while during the same respective periods of 2006, CIB Marine had net recoveries of \$0.1 million and \$0.6 million.

### ***Noninterest Income***

The following table presents the significant components of noninterest income:

|                                   | <b>Quarter Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                 |
|-----------------------------------|--|-----------------|--|-----------------|
|                                   | <b>2007</b>                            | <b>2006</b>     | <b>2007</b>                                | <b>2006</b>     |
|                                   | <b>(Dollars in thousands)</b>          |                 |  |                 |
| Loan fees                         | \$ 54                                  | \$ 64           | \$ 300                                     | \$ 192          |
| Deposit service charges           | 242                                    | 256             | 717  | 797             |
| Other service fees                | (16)                                   | 48              | 80   | 156             |
| Other income                      | 58                                     | 121             | 167  | 248             |
| Net gain/(loss) on sale of assets | (111)                                  | 1,094           | 1,360                                      | 2,021           |
|                                   | <u>\$ 227</u>                          | <u>\$ 1,583</u> | <u>\$ 2,624</u>                            | <u>\$ 3,414</u> |

Noninterest income decreased \$1.4 million for the quarter ended September 30, 2007 compared to the quarter ended September 30, 2006. The decrease was primarily 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 compared to a \$0.1 million loss on sale of assets during the third quarter of 2007. The loss on sale of assets in the third quarter of 2007 was mainly due to a loss recognized on the sale of vacant land adjacent to a branch CIB Marine sold in 2006. Noninterest income decreased \$0.8 million for the nine months ended September 30, 2007 compared to the same period ended September 30, 2006 mainly due to net gains recognized on branch sales. During the first nine months of 2007, CIB Marine sold two branches at a net pretax gain of \$1.3 million while during the same period of 2006, CIB Marine sold four branches at a combined pretax gain of \$2.0 million.

### ***Noninterest Expense***

The following table presents the significant components of noninterest expense:

|  | <b>Quarter Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
|  | <b>(Dollars in thousands)</b>          |             |  |             |
| Compensation and employee benefits       | \$ 4,012                               | \$ 5,005    | \$ 14,132                                  | \$ 16,108   |
| Equipment                                | 781                                    | 764         | 2,400                                      | 2,580       |
| Occupancy and premises                   | 720                                    | 798         | 2,380                                      | 2,502       |
| Professional services                    | 984                                    | 1,079       | 2,389                                      | 2,951       |
| Impairment loss on investment securities | —                                      | —           | —  | 1,134       |
| Write down and losses on assets          | 742                                    | —           | 742  | —           |
| <b>Other expense:</b>                    |  |             |  |             |
| Payroll and other processing charges     | 46                                     | 26          | 88   | 75          |
| Correspondent bank charges               | 44                                     | 66          | 148  | 198         |
| Advertising/marketing                    | 226                                    | 181         | 558  | 507         |

|                            |                 |                 |                  |                  |
|----------------------------|-----------------|-----------------|------------------|------------------|
| Communications             | 213             | 345             | 688              | 1,033            |
| Supplies and printing      | 54              | 91              | 206              | 273              |
| Shipping and handling      | 107             | 120             | 340              | 398              |
| Collection expense         | 4               | 2               | 13               | 22               |
| FDIC and state assessments | 157             | 330             | 307              | 990              |
| Recording and filing fees  | 44              | 29              | 146              | 133              |
| Other expense              | 608             | 565             | 1,784            | 3,689            |
| Total other expense        | <u>1,503</u>    | <u>1,755</u>    | <u>4,278</u>     | <u>7,318</u>     |
| Total noninterest expense  | <u>\$ 8,742</u> | <u>\$ 9,401</u> | <u>\$ 26,321</u> | <u>\$ 32,593</u> |

Total noninterest expense decreased \$0.7 million, or 7.0%, during the third quarter of 2007 compared to the third quarter of 2006. The decrease was primarily due to compensation and employee benefits expense which decreased \$1.0 million, or 19.8%, from \$5.0 million for the third quarter of 2006 to \$4.0 million for the third quarter of 2007. The decrease was mainly due to the sale and closure of certain bank branches during the last quarter of 2006 and the first nine months of 2007. The total number of full-time equivalent employees of companies included in continuing operations decreased from 297 at September 30, 2006 to 263 at September 30, 2007.

Total noninterest expense decreased \$6.3 million, or 19.2%, from \$32.6 million for the nine months ended September 30, 2006 to \$26.3 million for the nine months ended September 30, 2007. The decrease was primarily due to the following:

- Compensation and employee benefits expense decreased \$2.0 million, or 12.3%, from \$16.1 million for the nine months ended September 30, 2006, to \$14.1 million for the same period in 2007. The decrease is primarily due to the sale and closure of certain bank branches during the last quarter of 2006 and the first nine months of 2007. The total number of full-time equivalent employees of companies included in continuing operations decreased from 297 at September 30, 2006 to 263 at September 30, 2007.
- Impairment loss on securities was \$1.1 million for the nine months ended September 30, 2006. There was no impairment loss for the nine months ended September 30, 2007. 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 securities for a period of time sufficient to recover the carrying value at September 30, 2006. Accordingly, CIB Marine realized a \$1.1 million other-than-temporary loss on these certain securities during the first nine months of 2006. There were no such impairment losses during the first nine months of 2007.
- Other expense decreased \$3.0 million from \$7.3 million for the nine months ended September 30, 2006 to \$4.3 million for the nine months ended September 30, 2007 mainly due to a \$1.8 million contingent liability recognized in the first quarter of 2006, decreased regulatory assessments and cost savings resulting from management initiatives and the closure and sale of certain bank branches. The contingent liability expense related to the Hadley litigation, which was settled 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.

### ***Income Taxes***

No tax benefit has been recognized on the consolidated net operating losses for 2007 and 2006 due to significant federal and state net operating loss carryforwards on which the realization of related tax benefits is not more likely than not. The continuing operations income tax benefits for the third quarter and nine months ended September 30, 2007 and 2006 consisted primarily of the allocation of taxes, in accordance with sharing agreements with companies included in discontinued operations that would have been payable had it not been for the losses from continuing operations included in CIB Marine's consolidated returns.

In June 2006, the FASB released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. CIB Marine adopted FIN 48 on January 1, 2007 and has completed the process of evaluating the effect of FIN 48 on its consolidated financial statements as of January 1, 2007 and as of and for the nine months ended September 30, 2007. The FIN 48 adjustment is related to CIB Marine's investment in an Illinois Real Estate Investment Trust ("REIT"), owned by its former Illinois banking subsidiary, which was sold in 2004. As of December 31, 2006, CIB Marine maintained a \$1.9 million liability related to its exposure. The cumulative effect of adopting FIN 48 was a \$1.0 million increase in liabilities of companies held for disposal and a \$1.0 million decrease

to the January 1, 2007 retained earnings balance. During the second quarter of 2007 the statute of limitations expired with respect to a portion of this exposure. As a result of this event, CIB Marine reversed \$1.3 million of the tax liability through a credit to discontinued operations tax expense. During the first nine months of 2007, CIB Marine also recorded a \$0.2 million charge to its discontinued operations tax expense for interest and penalties related to the remaining REIT tax exposure. At September 30, 2007 and December 31, 2006, respectively, CIB Marine had a \$1.7 million and \$1.9 million current tax liability related to the tax exposure of its former subsidiary. This amount is included in liabilities of companies held for disposal on the consolidated balance sheets. At both September 30, 2007 and December 31, 2006, CIB Marine also had a \$0.5 million current tax liability related to individually insignificant federal and state tax items. Of this amount \$0.2 million is included in liabilities of companies held for disposal and \$0.3 million is netted against the income tax receivable included in other assets.

## **Financial Condition**

### ***Overview***

During the first nine months of 2007, CIB Marine continued to focus on improving its financial condition and allocated increased resources to business development as part of its strategic focus. Additionally, during the first half of 2007, CIB Marine's subsidiary banks closed three branches and sold the deposits and property and equipment of two other branches. At September 30, 2007, CIB Marine had total assets of \$982.2 million, a \$15.4 million or 1.5% decrease from \$997.6 million at December 31, 2006. The majority of the asset decrease occurred in investment securities and federal funds sold, which combined decreased by \$78.5 million in response to the increase in loans and the decline in overall deposits due to branch sales. This decrease was partially offset by a \$76.8 million increase in net loans driven by an increase in consumer, commercial and commercial real estate construction loans. The increase in consumer loans was primarily due to the purchase of a \$48.2 million closed end pool of fixed rate second lien home equity loans during the first quarter of 2007.

### ***Securities***

Total securities at September 30, 2007 were \$283.8 million, a decrease of \$49.5 million, or 14.8%, from \$333.3 million at December 31, 2006. The ratio of total securities to total assets was 28.9% at September 30, 2007, compared to 33.4% at December 31, 2006. The decrease was primarily due to repayments and sales of U. S. government agency and mortgage backed securities. In accordance with its liquidity risk management strategies, CIB Marine used a portion of the proceeds to settle deposits sold as part of the branch sales and purchase higher yielding assets.

The net unrealized loss on available for sale securities was \$0.5 million at September 30, 2007, compared to \$1.9 million at December 31, 2006.

### ***Loans***

Loans, net of the allowance for loan losses, represented 58.9% and 50.3% of CIB Marine's total assets at September 30, 2007 and December 31, 2006, respectively. Net loans increased \$76.9 million from \$501.7 million at December 31, 2006 to \$578.6 million at September 30, 2007. The increase was primarily due to an increase in commercial and commercial real estate construction loans resulting from CIB Marine's business development strategy and a \$45.6 million increase in consumer loans due to the purchase of a loan pool. In February 2007, CIB Marine purchased a \$48.2 million closed end 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 965 loans with a weighted average yield of 10.0%, 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.

### ***Credit Concentrations***

At September 30, 2007, CIB Marine had two secured borrowing relationships (loans to one borrower or a related group of borrowers) that exceeded 25% of stockholders' equity. At September 30, 2007, the total outstanding commitments on these two borrowing relationships, including lines of credit not fully drawn, was 64.5% of equity and 6.6% of total loans, and the principal drawn and outstanding on these two borrowing relationships was \$28.5

million. At December 31, 2006, CIB Marine had one borrowing relationship that exceeded 25% of stockholders' equity. At December 31, 2006, the total outstanding commitments on this one borrowing relationship, including lines of credit not fully drawn, were 25.8% of equity and 3.5% of total loans, and the principal drawn and outstanding on loans in this one borrowing relationship at December 31, 2006 was \$3.1 million

At September 30, 2007 and December 31, 2006, CIB Marine also had credit relationships within four and six industries or industry groups, respectively, that exceeded 25% of its stockholders' equity:

| <u>INDUSTRY</u>                    | <u>September 30, 2007</u>  |                   |                                  | <u>December 31, 2006</u>   |                   |                                  |
|------------------------------------|----------------------------|-------------------|----------------------------------|----------------------------|-------------------|----------------------------------|
|                                    | <u>Outstanding Balance</u> | <u>% of Loans</u> | <u>% of Stockholders' Equity</u> | <u>Outstanding Balance</u> | <u>% of Loans</u> | <u>% of Stockholders' Equity</u> |
|                                    | (Dollars in millions)      |                   |                                  |                            |                   |                                  |
| Commercial Real Estate Developers  | \$159.9                    | 27%               | 261%                             | \$143.2                    | 27%               | 200%                             |
| Residential Real Estate Developers | 140.4                      | 23                | 229                              | 112.3                      | 22                | 157                              |
| Motel and Hotel                    | 38.2                       | 6                 | 62                               | 40.1                       | 8                 | 56                               |
| Health Care Facilities             | 25.4                       | 4                 | 41                               | 20.9                       | 4                 | 29                               |
| Nursing/Convalescent Home          | 14.8                       | 3                 | 24                               | 28.7                       | 6                 | 40                               |
| Retail Trade                       | 14.7                       | 2                 | 24                               | 22.6                       | 4                 | 32                               |

### *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, 2007 the allowance for loan losses was \$25.6 million, or 4.2% of total loans, compared to \$20.9 million, or 4.0% of total loans at December 31, 2006. The increase in the allowance was primarily due to the increased loan portfolio and additional allowance allocated to two pools of home equity fixed rate loans CIB Marine purchased in June 2006 and February 2007. The allowance allocated to these home equity pools was \$4.3 million and \$1.1 million at September 30, 2007 and December 31, 2006, respectively. 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 2007 were \$1.3 million, while recoveries were \$0.04 million, compared to nominal charge-offs and \$0.1 million in recoveries for the same period of 2006. During the first nine months, total charge-offs for 2007 and 2006 were \$2.7 million and \$0.3 million, respectively, while total recoveries were \$1.5 million and \$0.9 million, respectively.

The ratio of the allowance to nonaccrual, restructured and loans 90 days or more past due and still accruing, was 93.4% at September 30, 2007 compared to 94.4% at December 31, 2006. 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, 2007 compared to December 31, 2006. 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:

|                                       | <u>Quarter Ended</u>   |             | <u>Nine Months Ended</u> |             |
|---------------------------------------|------------------------|-------------|--------------------------|-------------|
|                                       | <u>September 30,</u>   |             | <u>September 30,</u>     |             |
|                                       | <u>2007</u>            | <u>2006</u> | <u>2007</u>              | <u>2006</u> |
|                                       | (Dollars in thousands) |             |                          |             |
| <b>Balance at beginning of period</b> | \$ 21,019              | \$ 23,105   | \$ 20,906                | \$ 24,882   |
| <b>Loans charged-off</b>              |                        |             |                          |             |
| Commercial                            | (164)                  | (1)         | (920)                    | (62)        |
| Commercial real estate                | (707)                  | —           | (707)                    | (192)       |
| Commercial real estate construction   | —                      | —           | —                        | —           |
| Residential real estate               | (27)                   | —           | (168)                    | —           |
| Home equity                           | (404)                  | —           | (844)                    | —           |
| Consumer                              | (7)                    | (2)         | (16)                     | (7)         |

|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| <b>Total loans charged-off</b>  | (1,309)           | (3)               | (2,655)           | (261)             |
| <b>Recoveries of loans charged-off</b>  |                   |                   |                   |                   |
| Commercial  | 34                | 83                | 660               | 596               |
| Commercial real estate  | —                 | —                 | 217               | 244               |
| Commercial real estate construction   | —                 | —                 | 531               | —                 |
| Residential real estate   | —                 | —                 | 6                 | —                 |
| Home equity   | —                 | —                 | 62                | —                 |
| Consumer  | 4                 | 3                 | 8                 | 12                |
| <b>Total loan recoveries</b>  | <u>38</u>         | <u>86</u>         | <u>1,484</u>      | <u>852</u>        |
| <b>Net loans (charged off)/recovered</b>  | (1,271)           | 83                | (1,171)           | 591               |
| Provision for (reversal of) loan losses   | 5,834             | (1,079)           | 5,847             | (3,364)           |
| <b>Ending balance</b>   | <u>\$ 25,582</u>  | <u>\$ 22,109</u>  | <u>\$ 25,582</u>  | <u>\$ 22,109</u>  |
| Total loans:  |                   |                   |                   |                   |
| Total company   | \$ 604,753        | \$ 553,815        | \$ 604,753        | \$ 553,815        |
| Loans in assets of companies held for disposal  | (605)             | (102)             | (605)             | (102)             |
| Total loans   | <u>\$ 604,148</u> | <u>\$ 553,713</u> | <u>\$ 604,148</u> | <u>\$ 553,713</u> |
| Average total loans   | 595,171           | 545,060           | 578,353           | 519,058           |
| <b>Ratios</b>   |                   |                   |                   |                   |
| Allowance for loan losses to total loans  | 4.23%             | 3.99%             | 4.23%             | 3.99%             |
| Allowance for loan losses to nonaccrual loans,<br>restructured loans and loans 90 days or more past due<br>and still accruing | 93.42             | 93.99             | 93.42             | 93.99             |
| Net charge-offs (recoveries) annualized to average total<br>loans:  |                   |                   |                   |                   |
| Commercial  | 0.77              | (0.62)            | 0.58              | (1.24)            |
| Commercial real estate and commercial real estate<br>construction   | 0.69              | —                 | (0.01)            | (0.02)            |
| Residential real estate, home equity and consumer   | 1.43              | (0.01)            | 1.18              | (0.02)            |
| Total loans   | 0.85              | (0.06)            | 0.27              | (0.15)            |
| Ratio of recoveries to loans charged-off  | 2.90              | 2,866.67          | 55.89             | 326.44            |

#### ***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:

|                                     | <u>September 30,</u>   | <u>December 31,</u> | <u>September 30,</u> |
|-------------------------------------|------------------------|---------------------|----------------------|
|                                     | <u>2007</u>            | <u>2006</u>         | <u>2006</u>          |
|                                     | (Dollars in thousands) |                     |                      |
| <b>Nonperforming Assets</b>         |                        |                     |                      |
| Nonaccrual loans:                   |                        |                     |                      |
| Commercial                          | \$ 1,895               | \$ 3,881            | \$ 4,136             |
| Commercial real estate              | 13,018                 | 16,110              | 16,523               |
| Commercial real estate construction | 9,287                  | 142                 | 242                  |
| Residential real estate             | 370                    | 536                 | 429                  |
| Home equity                         | 1,069                  | —                   | —                    |
| Consumer                            | —                      | —                   | 1                    |
| Total nonaccrual loans              | <u>25,639</u>          | <u>20,669</u>       | <u>21,331</u>        |
| Foreclosed properties               | 1,180                  | 102                 | 104                  |
| Restructured loans                  | —                      | —                   | —                    |
| Total nonperforming assets          | <u>\$ 26,819</u>       | <u>\$ 20,771</u>    | <u>\$ 21,435</u>     |

**Loans 90 Days or More Past Due and Still Accruing**

|   |                   |                   |                     |
|---|-------------------|-------------------|---------------------|
| Commercial  | \$ —              | \$ 100            | \$ 687              |
| Commercial real estate  | 1,693             | 1,385             | 1,399               |
| Commercial real estate construction   | 51                | —                 | —                   |
| Residential real estate   | —                 | —                 | 106                 |
| Home equity   | —                 | —                 | —                   |
| Consumer  | —                 | —                 | —                   |
| Loans 90 days or more past due and still accruing   | <u>\$ 1,744</u>   | <u>\$ 1,485</u>   | <u>\$ 2,192</u>     |
| Allowance for loan losses   | \$ 25,582         | \$ 20,906         | \$ 22,109           |
| Total loans:  |                   |                   |                     |
| Total company   | \$ 604,753        | \$ 522,724        | \$ 553,815          |
| Loans included in assets of companies held for disposal   | (605)             | (100)             | (102)               |
| Total loans   | <u>\$ 604,148</u> | <u>\$ 522,624</u> | <u>\$ 553,713</u>   |
| Total assets:   |                   |                   |                     |
| Total company   | \$ 982,188        | \$ 997,584        | \$ 1,030,719        |
| Assets of companies held for disposal (1)   | (2,559)           | (4,112)           | (4,445)             |
| Net   | <u>\$ 979,629</u> | <u>\$ 993,472</u> | <u>\$ 1,026,274</u> |
| <b>Ratios:</b>  |                   |                   |                     |
| Nonaccrual loans to total loans   | 4.24%             | 3.95%             | 3.85%               |
| Foreclosed properties to total assets   | 0.12              | 0.01              | 0.01                |
| Nonperforming assets to total assets  | 2.73              | 2.09              | 2.09                |
| Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans | 4.53              | 4.24              | 4.25                |
| Nonperforming assets and loans 90 days or more past due and still accruing to total assets                | 2.91              | 2.24              | 2.30                |

Nonaccrual loans increased \$4.9 million from \$20.7 million at December 31, 2006 to \$25.6 million at September 30, 2007. The ratio of nonaccrual loans to total loans was 4.24% at September 30, 2007 and 3.95% at December 31, 2006.

At September 30, 2007, CIB Marine had six borrowing relationships (loans to one borrower or a group of borrowers) with nonaccrual loan balances in excess of \$1.0 million. These six relationships accounted for \$21.0 million, or 82.1%, of nonaccrual loans as of September 30, 2007 and consisted of the following:

- Commercial real estate loans to a borrower totaling \$10.4 million secured by first mortgages on two commercial properties. As of September 30, 2007, specific reserves of \$5.7 million were allocated to this borrowing relationship and \$0.3 million was charged off.
- Commercial real estate construction loan in the amount of \$3.5 million to a borrower secured by partially developed land. As of September 30, 2007, specific reserves of \$1.6 million were allocated to this borrowing relationship.
- Commercial loan in the amount of \$2.1 million to a borrower secured by a first mortgage on a residential land development. As of September 30, 2007 no specific reserves were allocated to this borrowing relationship.
- Commercial real estate construction loan in the amount of \$1.8 million to a borrower secured by partially developed land. As of September 30, 2007, specific reserves of \$0.3 million were allocated to this borrowing relationship.
- Commercial real estate loans totaling \$1.6 million to a borrower secured by first mortgages on three commercial warehouse properties. As of September 30, 2007, no specific reserves were allocated to this relationship and \$0.9 million was charged-off.
- Commercial real estate loan in the amount of \$1.6 million to a borrower secured by a first mortgage on a residential and commercial property. As of September 30, 2007, specific reserves of \$0.3 million were allocated to this relationships and no charge-offs have been taken. Additionally, at September 30, 2007 CIB Marine had an investment in the common and preferred capital of a limited liability corporation related to this borrowing relationship. The corporation is engaged in the development of owner-occupied housing in qualified low-income communities. During 2007, CIB Marine determined that its investment in the related corporation was impaired. See the other assets discussion for further information regarding this investment.

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.

On September 30, 2007, \$1.1 million, or 1.4% of the combined outstanding balance of the home equity pools purchased in June 2006 and February 2007 were classified as nonaccrual. Beginning in the third quarter of 2007, the quality of the two loan pool purchases deteriorated, in part due to the further deterioration in the housing markets and the sudden and significant tightening of credit standards and reduction in credit availability in the mortgage finance markets. At September 30, 2007, the balance of these two home equity loan pools was \$77.5 million and loan loss reserves allocated to these two pools totaled \$4.3 million. See the subsequent events discussion for further information on these pools.

Foreclosed properties were \$1.2 million at September 30, 2007 and consisted of one residential property and two commercial properties. At December 31, 2006, foreclosed properties were \$0.1 million and consisted of one commercial property and one residential property. The foreclosed properties were held for sale.

At September 30, 2007, the balance of foreclosed properties consisted of the following:

- An industrial office/warehouse property located in Illinois which had a carrying value of \$0.1 million at both September 30, 2007 and December 31, 2006. The property was acquired through foreclosure proceedings in 2005.
- Two commercial properties located in Illinois which had an aggregate carrying value of \$1.1 million at September 30, 2007. The properties were acquired through deeds in lieu of foreclosure in the third quarter of 2007.

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 \$1.7 million in loans that were 90 days or more past due and still accruing at September 30, 2007 compared to \$1.5 million at December 31, 2006. One commercial real estate borrowing relationship accounted for substantially the entire balance of loans 90 days or more past due and still accruing at September 30, 2007. The one commercial real estate borrowing relationship in the amount of \$1.7 million at September 30, 2007 was classified as 90 days or more past due during the third quarter of 2007 and was secured by a first mortgage on an apartment building and a condominium development. While CIB Marine believes the value of the property securing the obligation approximates the net book value of the loan, it cannot provide assurances that the value will be maintained or that there will not be losses with respect to this relationship.

The ratio of nonperforming assets and loans 90 days or more past due and still accruing to total assets was 2.92% at September 30, 2007 compared to 2.24% at December 31, 2006.

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 \$3.1 million from \$19.9 million at December 31, 2006 to \$16.8 million at September 30, 2007. The decrease in impaired loans was primarily due to payments and two borrowing relationships which had \$1.5 million in charge-offs, one of which also had \$1.1 million transferred to foreclosed properties. These decreases were offset by loans which were deemed impaired at September 30, 2007 but not December 31, 2006, including one borrowing relationship which had \$2.1 million of loans outstanding at September 30, 2007. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, CIB Marine does not separately identify individual consumer and residential loans for impairment disclosures.

The following table sets forth information regarding impaired loans:

|  | <u>September 30,<br/>2007</u> | <u>December 31,<br/>2006</u> | <u>September 30,<br/>2006</u> |
|--|-------------------------------|------------------------------|-------------------------------|
|  | (Dollars in thousands)        |                              |                               |
| Impaired loans without a specific allowance  | \$ 5,631                      | \$ 5,543                     | \$ 6,120                      |
| Impaired loans with a specific allowance     | <u>18,496</u>                 | <u>14,380</u>                | <u>14,840</u>                 |
| Total impaired loans                         | 24,127                        | 19,923                       | 20,960                        |
| Specific allowance related to impaired loans | \$ 8,791                      | \$ 7,451                     | \$ 7,785                      |

### ***Companies Held For Disposal***

At both September 30, 2007 and December 31, 2006, assets and liabilities of companies held for disposal, as shown on the consolidated balance sheets, are comprised of CIB Construction, MICR, MSI, and a liability for a tax exposure related to a subsidiary sold in 2004. The liability for the tax exposure was \$1.8 million and \$1.9 million, respectively at September 30, 2007 and December 31, 2006. See the tax discussion for more information on the tax exposure liability. 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**

|  | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets of companies held for disposal:           |                           |                          |
| CIB Construction (1)                             | \$ 1,403                  | \$ 3,250                 |
| MICR (1)   | —                         | 127                      |
| MSI  | 1,223                     | 800                      |
| Other (2)  | <u>(67)</u>               | <u>(65)</u>              |
| Total assets of companies held for disposal      | <u>\$ 2,559</u>           | <u>\$ 4,112</u>          |
| Liabilities of companies held for disposal:      |                           |                          |
| CIB Construction (1)                             | \$ 2,585                  | \$ 4,559                 |
| MICR (1)   | 33                        | 297                      |
| MSI  | 681                       | 656                      |
| Other (2)  | <u>819</u>                | <u>1,491</u>             |
| Total liabilities of companies held for disposal | <u>\$ 4,118</u>           | <u>\$ 7,003</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. MICR was dissolved in January 2008, and CIB Marine received an extension from the banking regulators to hold Canron until June 30, 2008.

(2) Includes mortgage banking assets/liabilities held by affiliates, tax liability in subsidiary sold in 2004 and elimination of intercompany transactions between companies held for disposal and affiliates. See Note 1-Basis of Presentation for further information on the tax exposure liability.

### ***CIB Construction (includes Canron)***

During the first nine months of 2007, 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. Canron filed Articles of Dissolution in December 2006.

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, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets:                                    |                           |                          |
| Cash on deposit at CIB Marine              | \$ 23                     | \$ 50                    |
| Accounts receivable                        | 551                       | 551                      |
| Other assets                               | 829                       | 2,649                    |
| Total assets                               | <u>\$ 1,403</u>           | <u>\$ 3,250</u>          |
| Liabilities and stockholder's equity:      |                           |                          |
| Income tax payable                         | \$ 1,409                  | \$ 3,082                 |
| Other liabilities                          | <u>1,176</u>              | <u>1,477</u>             |
| Total liabilities                          | 2,585                     | 4,559                    |
| Stockholder's equity                       | <u>(1,182)</u>            | <u>(1,309)</u>           |
| Total liabilities and stockholder's equity | <u>\$ 1,403</u>           | <u>\$ 3,250</u>          |

## **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. At both September 30, 2007 and December 31, 2006, the remaining net liabilities of MICR consisted of income taxes payable. MICR filed Articles of Dissolution in January 2008.

## **MSI**

During the first nine months of 2007, 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, 2007</u> | <u>December 31, 2006</u> |
|--|---------------------------|--------------------------|
|  | (Dollars in thousands)    |                          |
| Assets:                                    |                           |                          |
| Cash on deposit at CIB Marine              | \$ 41                     | \$ 14                    |
| Net loans                                  | 605                       | 100                      |
| Income tax receivable                      | 569                       | 685                      |
| Other assets                               | 8                         | 1                        |
| Total assets                               | <u>\$ 1,223</u>           | <u>\$ 800</u>            |
| Liabilities and stockholder's equity:      |                           |                          |
| Loans payable to CIB Marine                | \$ 646                    | \$ 103                   |
| Other liabilities                          | 35                        | 553                      |
| Total liabilities                          | <u>681</u>                | <u>656</u>               |
| Stockholder's equity                       | <u>542</u>                | <u>144</u>               |
| Total liabilities and stockholder's equity | <u>\$ 1,223</u>           | <u>\$ 800</u>            |

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

At December 31, 2006, CIB Marine's subsidiary bank Marine Bank held for sale the deposits and property and equipment of its Cedarburg and Brookfield, Wisconsin branches. The deposits and property and equipment of these two branches comprised the balance of assets and deposits of branches held for sale as of December 31, 2006. During the first half of 2007, Marine Bank sold the deposits and property and equipment of these two branches and recognized a net pretax gain on the sales of \$1.1 million. The gain is included in net gain on sale of assets and deposits. At the dates of sale, the deposits and net property and equipment of these sold branches were \$49.7 million and \$0.4 million, respectively. Additionally, goodwill of \$0.7 million was allocated to the Cedarburg branch. At September 30, 2007, no branches were held for sale.

CIB Marine continues to evaluate the effectiveness of its subsidiary banking networks which could result in the sale or closure of certain other subsidiary bank branches.

## **Deposit Liabilities**

Total deposits increased \$7.6 million, or 1.0%, from \$739.8 million at December 31, 2006 to \$747.4 million at September 30, 2007. Time deposits, which are the largest component of deposits, increased \$22.9 million during the first nine months of 2007 due to the increasing rate environment and additional public deposits. This increase was partially offset by a \$15.5 million decrease in demand deposits. The percentage of time deposits to total deposits was 61.7% at September 30, 2007 and 59.2% at December 31, 2006. 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 \$164.2 million, or 35.6% of total time deposits at September 30, 2007 compared to \$126.1 million or 28.8% at December 31, 2006. 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 \$22.2 million, or 4.8% of total time deposits at September 30, 2007 and \$39.2 million, or 9.0% of total time deposits at December 31, 2006.

## ***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, including junior subordinated debentures, increased \$43.1 million, or 47.1% from \$91.5 million at December 31, 2006 to \$134.6 million at September 30, 2007. The increase occurred in short-term borrowings which were \$72.8 million at September 30, 2007 compared to \$27.7 million at December 31, 2006. This increase was partially offset by the payoff of a long term \$2.0 million Federal Home Loan Bank borrowing. Due to the relative cost advantage of short term borrowings over other funding sources, CIB Marine decided to meet its additional funding needs, which resulted from an increase in earning assets and the sales of branch deposits, with short term borrowings rather than other funding sources.

CIB Marine has the right, at any time, as long as there are no continuing events of default, to defer payments of interest on its junior subordinated debentures for consecutive periods not exceeding five years; but not beyond the stated maturity. As a result of the agreement entered into with its regulator, CIB Marine has elected to defer all such interest payments subsequent to December 31, 2003. At September 30, 2007 and December 31, 2006 CIB Marine had accrued interest payable on its \$61.9 million junior subordinated debentures of \$28.0 million and \$21.8 million, respectively. These amounts are included in accrued interest payable on the consolidated balance sheets. Throughout the deferral period, interest on these borrowings continues to accrue. In addition, interest also accrues on all interest that was not paid when due, compounded quarterly or semi-annually. During the deferral period, CIB Marine may not pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment on its stock, or make any payment of principal, interest or premium, or redeem any similar debt securities of CIB Marine, subject to certain limitations.

## ***Other Liabilities***

Other liabilities decreased \$3.5 million from \$7.4 million at December 31, 2006 to \$3.9 million at September 30, 2007. The decrease was primarily due to a \$1.8 million contingent liability and a \$1.0 million payable for assets purchased in December 2006 that settled in January 2007. The contingent liability related to the settlement of the Hadley litigation. CIB Marine recorded the liability in the first quarter of 2006 and settled it 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 bank 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. There are five capital categories defined in the regulations: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. 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.

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, 2007, pursuant to FDIC regulations in 12 C.F.R. Part 325, all of CIB Marine's subsidiary banks were classified as well capitalized.

At September 30, 2007 and December 31, 2006, CIB Marine was subject to a written agreement ("Written

Agreement”) it entered into with the Federal Reserve Bank in the second quarter of 2004 and Marine Bank was subject to a Memorandum of Understanding (“Memorandum”) with the FDIC and its applicable state banking regulator. Additionally, at December 31, 2006, Central Illinois Bank was subject to a Cease and Desist Order (“Order”) it consented to with the FDIC and its applicable state banking regulator in the second quarter of 2004. The Order was terminated in January 2007 and replaced with a Memorandum of Understanding (together with the Memorandum, the “Memoranda”). Among other items, the Written Agreement and the Marine Bank Memorandum restrict the payment of cash dividends without prior written consent from the regulators and the Memoranda require the banks to maintain a Tier 1 leverage capital level equal to or exceeding 8% of the banks’ total average assets. These restrictions are in force until the Written Agreement and Memoranda are terminated. Failure to comply with the Written Agreement or Memoranda could have a material adverse effect on CIB Marine and its operations. As of September 30, 2007, the capital level of CIB Marine and each of its subsidiary banks exceeded the minimum levels required by the Written Agreement or Memoranda.

The risk-based capital information of CIB Marine at September 30, 2007 and December 31, 2006 is contained in the following table:

|   | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|---|---------------------------|--------------------------|
|   | (Dollars in thousands)    |                          |
| Risk weighted assets  | \$ 727,233                | \$ 674,565               |
| Average assets (1)  | <u>954,675</u>            | <u>1,015,809</u>         |
| Capital components  |                           |                          |
| Stockholders’ equity  | \$ 61,322                 | \$ 71,613                |
| Restricted core capital:  |                           |                          |
| Junior subordinated debentures net of investment in trust           | <u>60,000</u>             | <u>60,000</u>            |
| Total restricted core capital elements                              | 60,000                    | 60,000                   |
| Disallowed amounts  | <u>(39,559)</u>           | <u>(36,129)</u>          |
| Maximum allowable in tier 1 capital                                 | 20,441                    | 23,871                   |
| Nonfinancial equity items   | —                         | (34)                     |
| Less: disallowed intangibles  | —                         | (746)                    |
| Add: unrealized loss on securities                                  | <u>531</u>                | <u>1,880</u>             |
| Tier 1 capital  | 82,294                    | 96,584                   |
| Allowable allowance for loan losses                                 | 9,303                     | 8,595                    |
| Allowable junior subordinated debentures net of investment in trust | <u>39,559</u>             | <u>36,129</u>            |
| Total risk-based capital  | <u>\$ 131,156</u>         | <u>\$ 141,308</u>        |

|  | <u>Actual</u>          |              | <u>Minimum Required To be Adequately Capitalized</u> |              | <u>Minimum Required To be Well Capitalized</u> |              |
|--|------------------------|--------------|--|--------------|--|--------------|
|  | <u>Amount</u>          | <u>Ratio</u> | <u>Amount</u>  | <u>Ratio</u> | <u>Amount</u>                                  | <u>Ratio</u> |
|  | (Dollars in thousands) |              |  |              |  |              |
| <b>September 30, 2007</b>              |                        |              |  |              |  |              |
| Total capital to risk weighted assets  | \$131,156              | 18.03%       | \$58,179   | 8.00%        | \$72,723                                       | 10.00%       |
| Tier 1 capital to risk weighted assets | 82,294                 | 11.32        | 29,089   | 4.00         | 43,634   | 6.00         |
| Tier 1 leverage to average assets      | 82,294                 | 8.62         | 38,187   | 4.00         | 47,734   | 5.00         |
| <b>December 31, 2006</b>               |                        |              |  |              |  |              |
| Total capital to risk weighted assets  | \$141,308              | 20.95%       | \$53,965   | 8.00%        | \$67,456                                       | 10.00%       |
| Tier 1 capital to risk weighted assets | 96,584                 | 14.32        | 26,983   | 4.00         | 40,474   | 6.00         |
| Tier 1 leverage to average assets      | 96,584                 | 9.51         | 40,632   | 4.00         | 50,790   | 5.00         |

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

### **New Accounting Pronouncements**

The expected impact of accounting policies recently issued or proposed but not yet required to be adopted are discussed below. To the extent the adoption of new accounting standards materially affected CIB Marine’s financial condition, results of operations or liquidity, the impacts were discussed in the applicable section of this financial review and the notes to the consolidated financial statements.

### ***Income Taxes***

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (“EITF 06-11”). EITF 06-11 examines an employer’s deductibility of compensation expense for dividends or dividend equivalents that are charged to retained earnings on employee-held, equity-classified nonvested shares, nonvested share units, or outstanding options (“affected securities”). A consensus was reached that an employer should recognize a realized tax benefit associated with dividends on affected securities charged to retained earnings as an increase in additional-paid-in-capital (“APIC”). The amount recognized in APIC should also be included in the APIC pool. Additionally, when an employer’s estimate of forfeitures increases or actual forfeitures exceed its estimates, EITF 06-11 requires the amount of tax benefits previously recognized in APIC to be reclassified into the income statement; however, the amount reclassified is limited to the APIC pool balance on the reclassification date. EITF 06-11 is to be applied prospectively in fiscal years beginning after December 15, 2007, and interim periods within those fiscal periods. The adoption of EITF 06-11 is not expected to have a material effect on CIB Marine’s consolidated financial statements.

### ***Fair Value Measurements***

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 also expands disclosures about the use of fair value to measure assets and liabilities in interim and annual reports subsequent to initial recognition. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Adoption of this standard did not materially affect CIB Marine’s consolidated financial statements.

In February 2007 the FASB issued SFAS 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. This standard did not materially affect CIB Marine’s consolidated financial statements.

### ***Consolidations***

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (“SFAS 160”). SFAS 160 requires companies with noncontrolling interests to disclose such interests clearly as a portion of equity but separate from the parent’s equity. The noncontrolling interest’s portion of net income must also be clearly presented on the Income Statement. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 is not expected to have a material effect on CIB Marine’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), *Business Combinations (revised 2007)* (“SFAS 141 (R)”). SFAS 141 (R) applies the acquisition method of accounting for business combinations established in SFAS 141 to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. Consistent with SFAS 141, SFAS 141 (R) requires the acquirer to value the assets and liabilities of the acquiree at fair value and record goodwill on bargain purchases, with the main difference being the application to all acquisitions where control is achieved. SFAS 141 (R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of SFAS 141 (R) is not expected to have a material effect on 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 the first nine months of 2007, the availability of federal funds purchased by certain of CIB Marine's subsidiary banks with correspondent banks continued to be contingent on bank pledges of fixed income investment securities. The credit restrictions in effect at December 31, 2006 at the Federal Reserve Bank's discount window were lifted in the first quarter of 2007. Additionally, at September 30, 2007, 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.

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

CIB Marine's primary sources of funds for the nine months ended September 30, 2007 were a net decrease in investment securities of \$51.4 million and a net increase in short-term borrowings of \$45.1 million. Other sources of funds were a net increase in deposits and deposits held for sale of \$1.8 million and \$2.3 million in net cash received from the sale of branches.

A net increase in the loan portfolio of \$83.2 million and \$49.7 million of deposits sold were CIB Marine's primary uses of funds for the nine months ended September 30, 2007. Other uses of funds resulted from a \$2.0 million payment of long-term borrowings and \$2.0 million of cash used in operating activities.

CIB Marine had liquid assets from continuing operations of \$78.9 million and \$115.1 million at September 30, 2007 and December 31, 2006, respectively.

CIB Marine was able to meet its liquidity needs during all of 2007. 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**

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

The Memoranda at Central Illinois Bank and Marine Bank were terminated in December 2007 and January 2008, respectively, after which none of the subsidiary banks were party to any formal or informal regulatory agreement or order.

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

In October 2007, the Federal Home Loan Bank of Chicago entered into a consensual Cease and Desist Order

with the Federal Housing Finance Board which will guide the FHLB Chicago's operations going forward. In addition to several required actions and restrictions agreed to in the Cease and Desist Order, the FHLB Chicago is required to obtain prior written approval from the Federal Housing Finance Board for the redemption or repurchase of any capital stock from members and the payment of any dividends to its shareholders. The FHLB Chicago states that it will continue to provide to its members liquidity and funding through advances and the purchase of mortgages, and continue to support affordable housing and economic development. CIB Marine is a member, shareholder and customer of FHLB Chicago currently utilizing advances from the FHLB Chicago to assist in meeting the funding and liquidity needs of the subsidiary banks of CIB Marine. In October 2007 and January 2008, respectively, the FHLB Chicago announced it would not declare a dividend for the third or fourth quarters of 2007. At December 31, 2007, CIB Marine had \$11.5 million in FHLB Chicago stock, of which \$4.0 million was categorized as required, as defined in Note 8-Other Assets in Part I, Item I-Financial Statements of this Form 10-Q.

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

In the last half 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. At September 30, 2007 and December 31, 2007, the balance of these loans was \$77.5 million and \$73.0 million, respectively, and the allowance for loan loss allocated to these loans was \$4.3 million and \$5.3 million, or 5.5% and 7.3%, respectively, of the outstanding balance of these loans. Additionally, at September 30, 2007 and December 31, 2007, \$1.1 million and \$2.4 million, respectively of these loans were classified as nonaccrual.

### ***Branch Activities***

During the fourth quarter of 2007, Marine Bank closed its Milwaukee, Wisconsin branch which had total deposits of \$13.6 million at September 30, 2007. Deposits of the closed branch were transferred to other CIB Marine branches.

### ***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. Although CIB Marine did not report taxable income during these periods, penalties and interest may still be assessed by the Internal Revenue Service and/or applicable state departments of revenue. As of the first quarter of 2008, CIB Marine was current with all its federal and state tax return filings.

### ***Municipal Bond Insurer Rating Downgrades***

Since December 31, 2007, due to economic conditions, several nationally recognized rating agencies downgraded the credit ratings of several of the investment grade credit insuring companies. Several of the downgraded companies insure municipal obligation investments owned by CIB Marine. The municipal obligations have a par value of \$16.5 million and a fair value of \$16.4 million as of December 31, 2007. CIB Marine has not recognized any impairment on these affected municipal obligations and the securities are still considered investment grade quality as rated by the rating agencies.

### ***MICR***

At both September 30, 2007 and December 31, 2007, the remaining net liabilities of MICR consisted of income taxes payable to its parent. In January 2008, MICR filed Articles of Dissolution.

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

Since December 31, 2006, CIB Marine's market risk profile has not changed significantly and continues to favor declining interest rates over rising interest 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 2006 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, 2007.

## Repricing Interest Rate Sensitivity Analysis

|  | <u>0-3</u><br><u>Months</u> | <u>4-6</u><br><u>Months</u> | <u>7-12</u><br><u>Months</u> | <u>2-5</u><br><u>Years</u> | <u>Over 5</u><br><u>Years</u> | <u>Held for</u><br><u>sale/disposal</u> | <u>Total</u>      |
|--|-----------------------------|-----------------------------|------------------------------|----------------------------|-------------------------------|---|-------------------|
|  | (Dollars in thousands)      |                             |                              |                            |                               |   |                   |
| Interest-earning assets:                     |                             |                             |                              |                            |                               |   |                   |
| Loans  | \$ 289,776                  | \$ 30,352                   | \$ 83,385                    | \$ 176,527                 | \$ 24,713                     | \$ (605)                                | \$ 604,148        |
| Securities (1)                               | 42,408                      | 20,393                      | 35,232                       | 153,205                    | 44,881                        | —                                       | 296,119           |
| Federal funds sold                           | 61,692                      | —                           | —                            | —                          | —                             | —                                       | 61,692            |
| <b>Total interest-earning assets</b>         | <b>393,876</b>              | <b>50,745</b>               | <b>118,617</b>               | <b>329,732</b>             | <b>69,594</b>                 | <b>(605)</b>                            | <b>961,959</b>    |
| Interest-bearing liabilities:                |                             |                             |                              |                            |                               |   |                   |
| Time deposits                                | 104,304                     | 104,605                     | 167,617                      | 79,908                     | 4,706                         | —                                       | 461,140           |
| Savings and interest-bearing demand deposits | 215,663                     | —                           | —                            | —                          | —                             | —                                       | 215,663           |
| Short-term borrowings                        | 70,765                      | —                           | —                            | 2,000                      | —                             | —                                       | 72,765            |
| Junior subordinated debentures               | 20,619                      | —                           | —                            | 41,238                     | —                             | —                                       | 61,857            |
| <b>Total interest-bearing liabilities</b>    | <b>\$ 411,351</b>           | <b>\$ 104,605</b>           | <b>\$ 167,617</b>            | <b>\$ 123,146</b>          | <b>\$ 4,706</b>               | <b>\$ —</b>                             | <b>\$ 811,425</b> |
| Interest sensitivity gap (by period)         | (17,475)                    | (53,860)                    | (49,000)                     | 206,586                    | 64,888                        | (605)                                   | 150,534           |
| Interest sensitivity gap (cumulative)        | (17,475)                    | (71,335)                    | (120,335)                    | 86,251                     | 151,139                       | 150,534                                 | 150,534           |
| <b>Adjusted for derivatives:</b>             |                             |                             |                              |                            |                               |   |                   |
| Derivatives (notional, by period)            | (4,261)                     | —                           | —                            | 5,000                      | (739)                         | —                                       | —                 |
| Derivatives (notional, cumulative)           | (4,261)                     | (4,261)                     | (4,261)                      | 739                        | —                             | —                                       | —                 |
| Interest sensitivity gap (by period)         | (21,736)                    | (53,860)                    | (49,000)                     | 211,586                    | 64,149                        | (605)                                   | 150,534           |
| Interest sensitivity gap (cumulative)        | (21,736)                    | (75,596)                    | (124,596)                    | 86,990                     | 151,139                       | 150,534                                 | 150,534           |
| Cumulative gap as a % of total assets        | (2.21)%                     | (7.70)%                     | (12.69)%                     | 8.86%                      | 15.39%                        | 15.33%                                  |                   |

(1) Federal Home Loan Bank stock and Federal Reserve Bank stock are included in securities.

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, 2007 and December 31, 2006.

|   | <u>Basis point changes</u> |             |             |             |
|---|----------------------------|-------------|-------------|-------------|
|   | <u>+200</u>                | <u>+100</u> | <u>-100</u> | <u>-200</u> |
| Net interest income change over one year: |                            |             |             |             |
| September 30, 2007                        | (3.80)%                    | (2.21)%     | 0.23%       | (2.66)%     |
| December 31, 2006                         | (5.78)%                    | (4.31)%     | 2.23%       | 0.67%       |

## ITEM 4. CONTROLS AND PROCEDURES

### (a) Disclosure Controls and Procedures

CIB Marine's management, under the supervision and with the participation of its CEO and CFO, evaluated the effectiveness of the design and operation of the company's disclosure controls and procedures as of September 30, 2007. Based on this evaluation, management has concluded that the disclosure controls and procedures were effective as of September 30, 2007.

### (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, 2007, that have materially affected, or are reasonably likely to materially affect, CIB Marine's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In August 2003, Keith Burchett, a shareholder of CIB Marine and a borrower of CIB Marine's former subsidiary CIB Bank (Hillside, Illinois) ("CIB-Chicago"), commenced an action in the Circuit Court of Cook County, Illinois, against CIB Marine, Central Illinois Bank, CIB-Chicago and two of their now former directors and/or officers for damages arising out of alleged fraudulent misrepresentations relative to the financial condition of Canron and its principal shareholder by defendants to induce the plaintiff to borrow money from CIB-Chicago and make a \$0.5 million investment in Canron. Plaintiff asserts claims for fraud and shareholder remedies. The shareholder alleges

the defendants violated lending regulations causing 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. On January 11, 2008, plaintiff filed a motion to voluntarily dismiss the litigation. The court has not ruled on this motion.

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, 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 had been stayed in this action by an order of the Federal Court in the Lewis case described later in this section. Plaintiff had filed a motion in the Lewis case to vacate the discovery stay in this case, which CIB Marine and the other defendants in the Lewis case opposed. When defendants' motion for judgment on the pleadings was denied in the Lewis case on March 3, 2008, the Court denied the motion to vacate the stay of discovery as moot. 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 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 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. On March 3, 2008, the Court denied that motion.

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 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 remained in place. Plaintiffs 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. In denying the motion for judgment on the pleadings as described above, the Court denied the motions to vacate the stay as moot, *i.e.*, with the denial of the motion for judgment on the pleadings discovery may now proceed.

CIB Marine intends to vigorously contest certification of any class 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 alleges the defendants violated lending regulations which 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. On January 11, 2008, plaintiffs filed a motion to voluntarily dismiss the litigation. The Court has not ruled on this motion.

In December 2003, CIB-Chicago acquired the title to a commercial office building that was being converted into residential condominiums. The property was acquired through a Deed in Lieu of Foreclosure Settlement Agreement (“DIL Agreement”) from a borrower who was in default on its obligation. The property was included in foreclosed properties at December 31, 2003. Pursuant to the DIL Agreement, CIB-Chicago acquired the property subject to the first lien held by an unaffiliated financial institution and assumed the borrower’s financial obligation relating to that first lien. At December 31, 2003, the assumed financial obligation was reported as an outstanding non-recourse mortgage note payable. During the second quarter of 2004, CIB-Chicago transferred all of its rights, title and interest in the property, along with the borrower’s obligation under the related mortgage note, to the first lien holder. CIB-Chicago transferred the property based upon its evaluation that the amount of additional funds necessary to complete the project was greater than the financial benefits and risks associated therewith. The property was transferred without any further liability or obligation to the first lien position holder and CIB-Chicago reserved its legal rights to pursue the borrower and guarantors. The transfer to the first lien holder resulted in no additional gain or loss to CIB Marine. During 2003, CIB Marine charged-off \$41.7 million of the loan to its allowance for loan loss with respect to this borrowing relationship and also recorded a \$1.5 million market value write down on the property. In July 2004, CIB-Chicago commenced litigation in the United States District Court for the Northern District of Illinois, Eastern Division, against the borrower, guarantors and their related interests for collection of the losses incurred by CIB Marine based upon state law claims of breach of agreements, fraud, conversion and other theories of recovery, including Federal RICO violations. In November 2004, CIB-Chicago assigned the loans and claims related to this development to CIB Marine in conjunction with the sale of CIB-Chicago. In April 2005, the United States District Court dismissed the RICO claim and, as a result, lacked jurisdiction over the state law claims. In April 2005, CIB Marine commenced an action in the Circuit Court of Cook County, Illinois, against the defendants on the state law claims. On February 1, 2008, the Court dismissed the action against one of the guarantors on the grounds that CIB-Chicago was precluded from pursuing collection from the guarantor until the first lienholder was paid in full pursuant to the language of a restructuring agreement entered into by CIB-Chicago, the first lienholder and the guarantor. CIB Marine intends to appeal the dismissal. 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 million 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 to the United State Court of Appeal for the Eighth Circuit. The appeal is fully briefed, with no argument currently scheduled.

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 advancement of reimbursement for the costs of defense (payment of which by the insured reduces the remaining coverage under the policy), which include attorneys’ fees, subject to a retention. The insurer had 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. The parties negotiated the terms of their agreement, which was reflected in a written agreement accepted by the insurer, but was not executed by the parties.

Pending addressing open issues with regard to expanding the scope of this agreement to include the Burchett and Fasano/Arundel cases, the insurer informed the insureds that it would not sign the agreement regarding the Lewis and Ruedi cases. The insurer contends that the act of plaintiff's counsel in Lewis providing an affidavit from Ruedi to the court in connection with one of the pending motions regarding vacating the stay of discovery gives the insurer grounds to invoke an exclusion under the policy that applies when an insured under the policy, which the insurer contends Ruedi is, assists a plaintiff, such as Lewis, in the prosecution of a case against other insureds, such as the Lewis case. Accordingly, the insurer has advised the insureds that it will no longer pay any of the costs of defense of Lewis. CIB Marine understands that this refusal also applies to any judgment that may be entered against any insured in Lewis.

CIB Marine is considering its options in response to this position of the insurer. With respect to the individual defendants, the payment of 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 subject to a full reservation of rights under the insurance 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 agreement with the insurer provided 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 being made pursuant to the provision of its by-laws that mandates advancing defense costs of directors and officers under certain circumstances and subject to a full reservation of rights under the insurance 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 scope of discovery that is allowed by the court; (2) the extent, if any, to which the Lewis case is 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); (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) the final determination by the insurer as to the amounts it is prepared to pay pursuant to the policy referenced above; (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; and (7) 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.

## **ITEM 1A. RISK FACTORS**

There have been no significant changes in CIB Marine's risk factors from those described in its Annual Report on Form 10-K for the year ended December 31, 2006.

## **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 Edwin J. Depenbrok, 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 Edwin J. Depenbrok, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## 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.

CIB MARINE BANCSHARES, INC.  
(Registrant)

Date: March 31, 2008

By: /s/ EDWIN J. DEPENBROK \_\_\_\_\_  
Edwin J. Depenbrok  
Chief Financial Officer

**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: March 31, 2008

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

**CERTIFICATION**

I, Edwin J. Depenbrok, 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: March 31, 2008

By: /s/ Edwin J. Depenbrok  
Edwin J. Depenbrok  
Chief Financial Officer

**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, 2007 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: March 31, 2008

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

**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, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edwin J. Depenbrok, 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: March 31, 2008

By: /s/ Edwin J. Depenbrok  
Edwin J. Depenbrok  
Chief Financial Officer