



Dear Shareholder,

November 7, 2013

CIB Marine Bancshares, Inc. (OTCQB: CIBH) recently filed with the federal banking regulators its quarterly regulatory financial reports through the first nine months of 2013. CIB Marine and its subsidiary, CIBM Bank, reported substantial improvement in asset quality, but did report a loss for the quarter.

Results of Operations – Summary

- CIB Marine reported a loss from operations of \$0.8 million for the third quarter of 2013 compared to income of \$0.3 million for the same period of 2012.
- Both basic and diluted loss per share of common stock were \$0.05 for the third quarter of 2013 compared to net income per share of common stock of \$0.02 and \$0.01, respectively, for the same period of 2012.
- CIBM Bank reported a loss of \$0.4 million for the third quarter of 2013 and a loss of \$0.5 million for the nine months ending September 30, 2013. Compared to the loss reported in the second quarter of 2013, the loss in the third quarter of 2013 was primarily the result of write-downs on assets, reduced net interest income and higher noninterest expenses related to improved asset quality for the quarter.
- The decline in earnings at CIB Marine in the third quarter of 2013 compared to those over the same period in 2012 was primarily related to reduced net interest income, higher other expenses related to the improved asset quality and a gain on sale of securities reported for the third quarter of 2012, partly offset by reduced compensation and employee benefits and lower FDIC and other insurance costs.
- Provision for loan losses was \$0.1 million during the third quarter of 2013 compared to \$0.2 million during the same period of 2012. Provision for loan losses was \$0.2 million through the first nine months of 2013 compared to net recoveries of \$2.5 million for the same period in 2012.
- Net interest income declined from \$4.4 million in the third quarter of 2012 to \$3.7 million in the same period in 2013. The decline was primarily the result of a decline in yields on earning assets of 29 basis points versus an 11 basis points decline in the cost of interest bearing liabilities. The decline in earning asset yields was a result of declines in the yields for both loans and securities.
- Noninterest income declined in the third quarter of 2013 compared to the same period of 2012 due primarily to a \$0.8 million in gain on sale of securities during the third quarter of 2012.
- Noninterest expense improved nominally from the third quarter of 2012 to the same period of 2013. Although improvements are reported in compensation and employee benefits, FDIC and other insurance, the company had \$0.3 million higher other expenses, primarily from expenses related to the improvement in asset quality. For the nine months ended September 30, 2013, noninterest expenses have declined by \$0.7 million compared to the same period in 2012.

Financial Condition - Summary

- Total loans outstanding increased by \$4.5 million from year-end 2012 to September 30, 2013.
- Nonaccrual loans were \$3.9 million at September 30, 2013, an improvement from the \$12.1 million reported at September 30, 2012, and the \$8.9 million reported at December 31, 2012. Other real estate owned was \$10.9 million at September 30, 2013, compared to \$7.5 million reported at September 30, 2012, and \$10.5 million at December 31, 2012.
- The nonperforming asset ratio - the ratio of nonaccrual loans, other real estate owned, restructured loans and loans 90 days or more past due and still accruing to total assets - improved to 4.92% at September 30, 2013, from 6.34% at September 30, 2012, and 5.93% at December 31, 2012.
- The September 30, 2013, Tier 1 leverage ratio for CIB Marine improved to 14.84% from 14.11% at September 30, 2012, and 14.39% at December 31, 2012. The September 30, 2013, Tier 1 leverage ratio for CIBM Bank improved to 12.80% from 12.24% at December 31, 2012.

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- The allowance for loan losses to total loans was down to 2.59% at September 30, 2013, compared to 3.75% at September 30, 2012. The decline is primarily the result of the charge-offs of specific reserves for loans individually evaluated for impairment and improved asset quality in the loan portfolio.
- The book value per share of common stock was \$0.29 at September 30, 2013, compared to \$0.43 at September 30, 2012. The decline was related to year-to-date net loss reported as of September 30, 2013, and the greater accumulated other comprehensive loss reported for September 30, 2013, due to the increase in benchmark interest rates (e.g., U.S. Treasury notes and bonds) along the yield curve.

Also, attached are selected, unaudited financial results for the quarter and nine months ending September 30, 2013. Please visit the website, www.cibmarine.com, for additional detailed information about CIB Marine's financial results for both recent and prior periods, as well as a link to the quarterly reports filed with bank regulators.

Comments

A substantially improved credit profile, expense reductions and loan growth had a beneficial impact on our results for the 3rd quarter of 2013. We are disappointed that these factors have not yet translated into profitability, but the loss in our banking subsidiary has narrowed from the previous quarter and included a significant amount of credit specific expenses.

Asset Quality: We are starting to see some very positive elements of our recovery take hold, but none are more significant than the improvement in our credit quality. Our credit metrics improved markedly this quarter as both our non-accruals and non-performing assets responded to our continued, aggressive management activity. Our non-accrual levels are now near average banking levels and bode well for the reduction in the credit-related variability in our operating results. As a further indication of our credit quality improvement, the Federal Reserve terminated its Written Agreement with our holding company in this quarter. Although elevated regulatory requirements remain in place regarding dividends, borrowings and stock repurchase transactions, they are significantly reduced from the previous agreement.

Cost Management: Our expense initiatives continue to help us improve our operating environment. I noted last quarter that we made a significant reduction in our staffing and some of that reduction was realized immediately. In addition, we also closed one of our branches in Wisconsin at the end of August, consequently the savings from that action occurred later in the quarter. These actions are consistent with the strategic planning we outlined at our annual meeting earlier this year and other less significant, yet still meaningful, expense reduction initiatives continue. These actions are reflected in the previously noted reduction in operating expenses. As compared to the first nine months of last year, noninterest expenses have been reduced by about \$0.7 million.

Mortgage Services: Late in the third quarter we closed on the previously announced acquisition of assets and staff of Avenue Mortgage, and the team at Avenue has been fantastic as we worked through merger integration. While some merger related expenses depressed our quarterly results, we believe this is a major milestone in CIB Marine's recovery and look forward to the positive portfolio and noninterest income impact the mortgage business line will have over time. In addition, we see other opportunities to leverage Avenue to grow assets and improve our delivery efficiencies. Despite recent press about the faded re-finance boom, planning for CIB Marine's expanded mortgage capabilities has always emphasized the purchase market, which represents an incremental revenue opportunity for our company.

Loan Portfolio: CIB Marine's loan portfolio has grown both this past quarter and since year-end 2012, with both commercial and retail loan products contributing. As I have discussed over the last year, the impact of the legacy portfolio is waning, allowing the business development efforts of the corporate bankers to overcome abnormally high portfolio attrition. Corporate loan production more than doubled as compared to the same period in the previous year, yet it was still just sufficient enough to overcome the reductions that came from asset quality improvement and other pay-downs. Importantly, the corporate bankers continue to add to the pipeline of new

business, which is notable given the continued weak pace of the economy. The marketplace has responded favorably to our approach of solution-based banking, delivered by experienced corporate, retail and now mortgage bankers. I encourage you to review some of the testimonials that are posted to our websites in the “About” section at www.marinebank.com or www.centralillinoisbank.com.

Deposits: CIB Marine’s core checking deposit business continues to grow with the number of accounts increasing steadily during the year. The addition of mobile banking has been well received with over 20% of on-line banking clients signing up for the service during the first month. We plan on enhancing the service in the near future with remote deposit capabilities.

I have discussed CIB Marine’s growth plans in previous letters, and more expansively in my comments at this year’s annual meeting. Those plans are both strategic and tactical. Our overarching strategy has been to improve our credit quality and thereby enhance the value of our company. From an operating perspective, the Avenue acquisition was an important strategic action and the continued growth of our loan portfolio is the primary tactical thrust. Nonetheless, it is important to be careful about loan growth and we are doing so. The low interest rate environment is creating some unsupportable asset valuations in certain sectors and we want to limit our lending into those situations.

With these and other previously reported actions, and a strong capital position, we remain optimistic about improving operating results. As always, our success is the result of the hard work of our employees and the trust our clients place in our company to provide them with banking services.

Sincerely,



Chuck Ponicki
President and Chief Executive Officer

FORWARD-LOOKING STATEMENTS

CIB Marine has made statements in this Shareholder Letter 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,” “intend,” “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 that 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.

Shareholders should note that many factors, some of which are discussed elsewhere in this Shareholder Letter and in other documents made available by the Company, could affect the future financial results of CIB Marine and could cause those results to differ materially from those expressed in forward-looking statements contained or incorporated by reference in this document. These factors, many of which are beyond CIB Marine’s control, include but are not limited to:

- operating, legal, and regulatory risks;
- economic, political, and competitive forces affecting CIB Marine’s banking business;
- the impact on net interest income and securities values from changes in monetary policy and general economic and political conditions; and
- the risk that CIB Marine’s analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. Forward-looking statements speak only as of the date they are made. CIB Marine undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Forward-looking statements are subject to significant risks and uncertainties and CIB Marine’s actual results may differ materially from the results discussed in forward-looking statements.

CIB MARINE BANCSHARES, INC.
Selected Unaudited Consolidated Financial Data

	Quarters Ended		Nine Months Ended	
	September 30,	2012	September 30,	2012
	2013	2012	2013	2012
(Dollars in thousands, except share and per share data)				
Selected Statements of Operations Data				
Interest income	\$4,346	\$5,136	\$13,303	\$16,366
Interest expense	598	753	1,903	2,532
Net interest income	3,748	4,383	11,400	13,834
Provision for loan losses	59	172	223	(2,483)
Net interest income after provision for loan losses	3,689	4,211	11,177	16,317
Noninterest income (loss)	(44)	649	238	(1,296)
Noninterest expense	4,490	4,517	13,078	13,798
Income (loss) before income taxes	(845)	343	(1,663)	1,223
Income tax expense	—	—	—	50
Net income (loss)	\$(845)	343	\$(1,663)	\$1,173
Common Share Data				
Basic net income (loss)	\$(0.05)	\$0.02	\$(0.09)	\$0.06
Diluted net income (loss)	\$(0.05)	\$0.01	\$(0.09)	\$0.03
Dividends	—	—	—	—
Book value per share	\$0.29	\$0.43	\$0.29	\$0.43
Weighted average shares outstanding-basic	18,127,892	18,127,892	18,127,892	18,127,892
Weighted average shares outstanding-diluted	18,127,892	35,631,892	18,127,892	35,631,892
Total assets	\$447,038	\$480,931	\$447,038	\$480,931
Loans	323,008	327,383	323,008	327,383
Allowance for loan losses	(8,368)	(12,285)	(8,368)	(12,285)
Investment securities	94,087	88,259	94,087	88,259
Deposits	376,474	401,898	376,474	401,898
Borrowings	3,711	9,396	3,711	9,396
Stockholders' equity	65,344	67,759	65,344	67,759
Financial Ratios and Other Data				
Performance ratios:				
Net interest margin (1)	3.46%	3.67%	3.44%	3.83%
Noninterest income (loss) to average assets (2)	(0.04)	(0.09)	0.07	(0.55)
Noninterest expense to average assets	3.94	3.68	3.78	3.73
Efficiency ratio (3)	121.12	105.59	112.30	117.09
Income (loss) on average assets (4)	(0.74)	0.28	(0.48)	0.32
Income (loss) on average equity (5)	(5.09)	2.02	(3.32)	2.37
Asset quality ratios:				
Nonaccrual loans to total loans (6)	1.20%	3.69%	1.20%	3.69%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (6)	3.44	7.03	3.44	7.03
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total assets (6)	4.92	6.34	4.92	6.34
Allowance for loan losses to total loans	2.59	3.75	2.59	3.75
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (6)	75.24	53.35	75.24	53.35
Net charge-offs annualized to average loans	0.48	0.12	1.35	0.53
Capital ratios:				
Total equity to total continuing assets	14.62%	14.09%	14.62%	14.09%
Total risk-based capital ratio	18.82	19.09	18.82	19.09
Tier 1 risk-based capital ratio	17.56	17.82	17.56	17.82
Leverage capital ratio	14.84	14.11	14.84	14.11
Other data:				
Number of employees (full-time equivalent)	151	135	151	135
Number of banking facilities	10	12	10	12

- (1) Net interest margin is the ratio of net interest income to average interest-earning assets.
- (2) Noninterest income (loss) to average assets excludes gains and losses on securities.
- (3) The efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income (loss), excluding gains and losses on securities. A lower ratio indicates greater efficiency.
- (4) Income (loss) on average assets is net income (loss) from operations divided by average total assets.
- (5) Income (loss) on average equity is net income (loss) from operations divided by average common equity.
- (6) Excludes loans held for sale from nonaccrual loans, nonperforming assets and 90 days or more past due and still accruing loans.

CIB MARINE BANCSHARES, INC.
Consolidated Balance Sheets
(Unaudited)

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
	<u>(Dollars in thousands, except share data)</u>	
Assets		
Cash and due from banks	\$ 12,278	\$ 53,530
Investment securities:		
Securities available for sale	92,204	86,480
Trading securities	1,883	3,273
Total investment securities	<u>94,087</u>	<u>89,753</u>
Loans held for sale	534	347
Loans	323,008	318,503
Allowance for loan losses	(8,368)	(11,378)
Net loans	<u>314,640</u>	<u>307,125</u>
Federal Home Loan Bank stock	2,170	2,956
Premises and equipment, net	4,853	4,161
Accrued interest receivable	1,515	1,298
Other real estate owned, net	10,881	10,493
Bank owned life insurance	4,067	4,000
Goodwill	287	—
Other assets	<u>1,726</u>	<u>1,466</u>
Total assets	<u>\$ 447,038</u>	<u>\$ 475,129</u>
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 58,317	\$ 54,163
Interest-bearing demand	29,905	31,496
Savings	145,545	154,124
Time	142,707	154,901
Total deposits	<u>376,474</u>	<u>394,684</u>
Short-term borrowings	3,711	10,414
Accrued interest payable	244	271
Other liabilities	<u>1,265</u>	<u>2,131</u>
Total liabilities	381,694	407,500
Stockholders' Equity		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed noncumulative perpetual issued-55,624 shares of Series A and 4,376 shares of Series B convertible; aggregate liquidation preference-\$60,000	51,000	51,000
Common stock, \$1 par value; 50,000,000 authorized shares; 18,346,391 issued shares; 18,135,344 outstanding shares	18,346	18,346
Capital surplus	158,493	158,493
Accumulated deficit	(159,594)	(157,931)
Accumulated other comprehensive income related to available for sale securities	910	1,924
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(3,282)	(3,674)
Accumulated other comprehensive loss, net	<u>(2,372)</u>	<u>(1,750)</u>
Treasury stock 218,499 shares at cost	<u>(529)</u>	<u>(529)</u>
Total stockholders' equity	<u>65,344</u>	<u>67,629</u>
Total liabilities and stockholders' equity	<u>\$ 447,038</u>	<u>\$ 475,129</u>

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

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Interest and Dividend Income				
Loans	\$3,689	\$4,233	\$11,282	\$13,447
Loans held for sale	3	29	(6)	98
Securities	639	840	1,961	2,729
Other investments	15	34	66	92
Total interest income	4,346	5,136	13,303	16,366
Interest Expense				
Deposits	597	723	1,896	2,389
Short-term borrowings	1	5	7	11
Federal Home Loan Bank advances	—	25	—	132
Total interest expense	598	753	1,903	2,532
Net interest income	3,748	4,383	11,400	13,834
Provision for (reversal of) loan losses	59	172	223	(2,483)
Net interest income after provision for loan losses	3,689	4,211	11,177	16,317
Noninterest Income				
Deposit service charges	99	125	312	383
Other service fees	31	49	123	168
Other income	80	20	154	111
Total other-than-temporary impairment losses				
Total impairment loss	—	—	—	(161)
Loss recognized in other comprehensive income	—	—	—	(1,261)
Net impairment loss recognized in earnings	—	—	—	(1,422)
Gain (loss) on sale of securities, net	(3)	754	(8)	754
Gains (loss) on sale of assets, net	(251)	(299)	(343)	(1,290)
Total noninterest income (loss)	(44)	649	238	(1,296)
Noninterest Expense				
Compensation and employee benefits	2,354	2,492	7,097	7,479
Equipment	210	197	647	618
Occupancy and premises	344	373	1,155	1,120
Data processing	175	164	475	450
Federal deposit insurance	148	259	434	788
Professional services	341	336	922	1,063
Telephone and data communication	115	104	313	318
Insurance	94	140	358	547
Other expense	709	452	1,677	1,415
Total noninterest expense	4,490	4,517	13,078	13,798
Income (loss) from continuing operations before income taxes	(845)	343	(1,663)	1,223
Income tax expense	—	—	—	50
Net income (loss)	(845)	343	(1,663)	1,173
Preferred stock dividends	—	—	—	—
Net income (loss) allocated to common stockholders	\$(845)	\$343	\$(1,663)	\$1,173
Other comprehensive income				
Total other comprehensive income	68	395	(622)	2,414
Comprehensive income	\$(777)	\$738	\$(2,285)	\$3,587