



February 16, 2017

Dear Shareholder,

CIB Marine Bancshares, Inc. (“CIB Marine” or the “Company”) is pleased to report its financial results for the quarter and year ended December 31, 2016.

### **Result of Operations – Summary**

Net income for the year ended December 31, 2016, was \$4.1 million or \$0.22 basic and \$0.11 diluted earnings per share compared to a loss of \$0.6 million or \$0.03 basic and diluted earnings per share for the same period of 2015. The improved earnings performance was due principally to revenue growth as a result of loan growth, improvements in the mortgage division, and increased net gains on sale of assets net of write downs.

Below are some highlights for the year 2016:

- Return on average assets was 0.66% for the year, a substantial improvement over the (0.12%) reported for the year 2015.
- Net income for subsidiary CIBM Bank was \$4.3 million for the year, an increase of \$4.0 million from the year 2015, reflecting year-on-year an increase of \$1.8 million in net interest income, a \$0.6 million improvement in provisions for loan losses and \$3.4 million growth in net mortgage banking revenues.
- Net interest income increased \$1.8 million for the year 2016 compared 2015. The increase was primarily due to a \$64 million dollar increase in average loans outstanding. The net interest margin did decline from 3.18% to 3.01% over the same time period in part due to growth in higher quality, and hence lower yielding, assets like residential mortgage loans and reverse repurchase agreements; higher borrowing and money market account costs; and lower yields on securities.
- Noninterest income increased \$5.0 million for the year 2016 compared to the same period of 2015, due primarily to improved mortgage activity and gains related to assets previously charged or written down.
- Reversal of loan losses was \$0.5 million for the year ending December 31, 2016, compared to a provision for loan losses of \$0.1 million for the same period in 2015. The reversal of loan losses was related to a \$1.5 million structured settlement payment announced earlier in 2016 which has been received and recorded in the allowance for loan losses as a recovery of loans previously charged off. This recovery was offset in part by \$1.0 million in additional provisions needed for a large commercial relationship that declined in quality and resulted in an increase in non-accrual loans.
- Noninterest expenses rose for the year 2016 by \$2.7 million versus the prior year, primarily due to a \$2.9 million increase in compensation, \$1.9 million of which was for higher commissions due to higher loan originations, as well as increases in performance bonuses and other benefits related to CIBM Bank’s improved results, partially offset by lower overall salaries and other compensation items.
- The efficiency ratio improved from 102.68% for the year ending December 31, 2015, to 86.94% for the year ending December 31, 2016. The improvement was the result of improved revenues as well as a number of expense reduction activities that resulted in fewer bank employees and offices outside of the mortgage division. During the year the mortgage division grew in total employees and added two mortgage offices.

### **Financial Condition - Summary**

Total assets grew \$82 million from December 31, 2015, to December 31, 2016, led by net growth of \$38 million in gross loans, \$24 million in reverse repurchase agreements, and \$17 million in investment securities. Below are some highlights of our financial condition as of December 31, 2016:

- Book value per share of common stock at December 31, 2016, was \$0.53 compared to \$0.31 at December 31, 2015. For those same dates the tangible book value per share was \$1.01 and \$0.79, respectively.

*“Community Banking – The Way It Used To Be”*

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- From December 31, 2015, to December 31, 2016, loans grew by \$38 million. The growth reflects CIBM Bank's initiatives to continue to grow our loan balances primarily from within our banking markets and broadly across portfolio segments. Construction and development loans, the majority of which are owner occupied projects, grew by \$15 million and residential loans grew \$26 million.
- Nonperforming assets to total assets declined from 2.25% at December 31, 2015, to 1.67% at December 31, 2016. The 2016 year-end number was up from 1.32% at September 30, 2016, with the increase caused primarily by deterioration of one borrowing relationship.
- Net recoveries of previously charged off loans to average loans was 0.02% for the year ended December 31, 2016, compared to 0.11% for the same period of 2015, reflecting solid collection activities of loans previously charged off in relation to the level of new charge-offs.
- The Tier 1 leverage ratio for CIB Marine was 11.14% at December 31, 2016, compared to 12.27% at December 31, 2015, reflecting the asset growth of CIB Marine and a solid capital foundation for continued development of CIB Marine's revenue growth in the future.

Attached please find audited financial results for the year ended December 31, 2016, including selected financial information, a balance sheet, and an income statement. The final audited results reflect updated financial information compared to the information reported in our January 13, 2017, earnings release. The earnings for the year ended December 31, 2016, were updated from \$4.4 million to \$4.1 million due to new collateral value and charge-off information, and the corresponding earnings per share were revised from \$0.24 basic and \$0.12 diluted to \$0.22 basic and \$0.11 diluted. In addition, updated reversal of loan losses, charge-off, and non-performing asset information is reflected in this letter, its attachments, and the updated supplemental quarterly financial information for the quarter ended December 31, 2016, available on our website at [www.cibmarine.com](http://www.cibmarine.com).

Please visit our website for additional detailed financial results for both recent and prior periods, as well as a link to the quarterly reports we file with our regulators. As a reminder, we will continue to release our financial results on a quarterly basis via our website. Should you want a mailed or e-mailed copy of our quarterly results, please contact Shareholder Relations Manager, Elizabeth Neighbors, directly at (262) 695-6010 or [Elizabeth.Neighbors@cibmarine.com](mailto:Elizabeth.Neighbors@cibmarine.com) to be added to our distribution list.

### **2017 Annual Meeting**

We have scheduled our Annual Meeting of Shareholders for 1:00pm on May 25, 2017, in the Champaign, Illinois area. Additional information regarding the annual meeting, including the proxy statement and shareholder proxy card for voting, is forthcoming.

### **CDO Voting Requirements Update**

As we discussed at last year's annual meeting of shareholders, the Company is interested in evaluating opportunities to redeem the outstanding preferred stock in a manner that will benefit the Company and our shareholders. The inability to obtain the consent of preferred shareholders to amend the Company's Articles of Incorporation is a barrier to the Company's ability to redeem and retire preferred stock. We have been informed of a change within the voting requirements in one of the Collateralized Debt Obligations ("CDOs") that holds a significant portion of the Company's preferred stock. Alone, a change in the voting rules of any one CDO may not be sufficient to provide the pathway to obtaining the consent required to amend the Articles and past opportunities to secure the consent of the voting class of the CDOs have proven challenging to execute. We are proceeding with caution and will not incur unnecessary expense or distraction while we evaluate the opportunity. Our focus remains on revenue growth and efficiency improvements, but opportunities to improve our capital position and create liquidity for shareholders are worthy of investigation. We will provide additional details on this matter to shareholders as they develop.

### **Concluding Comments**

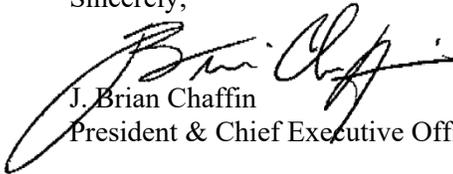
CIB Marine completed a successful year in 2016 and is pleased to be reporting an increase in the book value per share of common stock, as well as progress in a number of strategic areas. Our expense management actions had a favorable impact on our results and efficiency ratio. Our loan portfolio and deposits both grew nearly 9%, reflecting

more than \$100 million in new portfolio loan originations and deposit gathering activities, and mortgage revenues grew 92% due to an increase in the number of mortgage originators and lower rates for much of 2016. Our SBA lending activities are underway and we look forward to reporting their contributions to earnings starting in the first quarter of 2017.

In 2016 we began an initiative that will carry on through 2017 and focuses on investments in information technology to enhance our services and improve product delivery, as well as fund a number of security and infrastructure modernization measures.

Our eyes and energy are focused on 2017 and the future now. We are in a period of political and economic change with cross-currents in a number of economic and regulatory areas. Although the credit cycle has extended and there are some soft areas in both our markets and the nation as a whole, we are optimistic about continued low levels of unemployment and business investments more generally. Interest rates are higher across the yield curve from one year ago and Fed policy rates are forecast to increase further in 2017. During 2017 we expect a less robust residential lending market due to the increase in mortgage rates, but we continue to work on expanding our mortgage lending activities more deeply through our banking markets and we are optimistic our SBA lending activities will increase over the prior year. Our traditional retail and commercial community banking activities contributed significantly to the results in 2016 and we are working towards continued development and growth of our customer relationships within the communities where we live and work.

Sincerely,



J. Brian Chaffin  
President & 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.

Stockholders should note that many factors, some of which are discussed elsewhere in this Shareholder Letter and in the documents that are incorporated by reference, 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**

	At or for the Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>					
Interest and dividend income	\$20,949	\$18,530	\$18,162	\$17,710	\$21,404
Interest expense	2,997	2,377	2,137	2,470	3,218
Net interest income	17,952	16,153	16,025	15,240	18,186
Provision for (reversal of) loan losses	(548)	61	379	(22)	(3,213)
Net interest income after provision for (reversal of) loan losses	18,500	16,092	15,646	15,262	21,399
Noninterest income (loss) (1)	9,400	4,426	3,656	1,049	(1,172)
Noninterest expense	23,779	21,117	18,996	17,665	18,810
Income (loss) from continuing operations before income taxes	4,121	(599)	306	(1,354)	1,417
Income tax expense	50	6	4	—	50
<b>Net income (loss)</b>	<b>4,071</b>	<b>(605)</b>	<b>302</b>	<b>(1,354)</b>	<b>1,367</b>
<b>Common Share Data</b>					
Basic net income (loss)	0.22	(0.03)	0.02	(0.07)	0.08
Diluted net income (loss)	0.11	(0.03)	0.01	(0.07)	0.04
Dividends	—	—	—	—	—
Tangible book value per share (2)	1.01	0.79	0.90	0.82	0.92
Book value per share (2)	0.53	0.31	0.42	0.34	0.42
Weighted average shares outstanding-basic	18,127,892	18,127,892	18,127,892	18,127,892	18,127,892
Weighted average shares outstanding-diluted	35,791,952	18,127,892	35,631,892	18,127,892	35,631,892
<b>Financial Condition Data</b>					
Total assets	\$653,559	\$571,233	\$501,918	\$460,153	\$475,129
Loans	483,518	445,050	387,293	341,332	318,503
Allowance for loan losses	(7,592)	(8,064)	(7,556)	(8,308)	(11,378)
Investment securities	112,072	94,702	88,877	90,731	89,753
Deposits	483,097	443,571	400,201	387,901	394,684
Borrowings	96,944	58,883	31,260	4,348	10,414
Stockholders' equity	69,523	65,586	67,533	66,195	67,629
<b>Financial Ratios and Other Data</b>					
Performance Ratios:					
Net interest margin (3)	3.01%	3.18%	3.44%	3.46%	3.80%
Net interest spread (4)	2.86	3.03	3.28	3.29	3.59
Noninterest income to average assets (5)	1.53	0.84	0.74	0.23	(0.40)
Noninterest expense to average assets	3.88	4.02	3.93	3.84	3.83
Efficiency ratio (6)	86.94	102.68	96.96	108.46	115.82
Earnings (loss) on average assets (7)	0.66	(0.12)	0.06	(0.29)	0.28
Earnings (loss) on average equity (8)	5.88	(0.89)	0.45	(2.03)	2.06
Asset Quality Ratios:					
Nonaccrual loans to total loans (9)	1.26%	0.70%	1.16%	1.06%	2.80%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (9)	1.60	1.96	2.42	3.20	5.56
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total asset (9)	1.67	2.25	2.94	4.48	5.93
Allowance for loan losses to total loans	1.57	1.81	1.95	2.43	3.57
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (9)	97.99	92.25	80.64	76.02	64.30
Net charge-offs (recoveries) to average loans	(0.02)	(0.11)	0.31	0.95	0.46
Capital Ratios:					
Total equity to total assets	10.64%	11.48%	13.45%	14.39%	14.23%
Total risk-based capital ratio	15.40	15.45	17.21	18.05	19.34
Tier 1 risk-based capital ratio	14.15	14.20	15.95	16.79	18.07
Leverage capital ratio	11.14	12.27	13.50	14.89	14.39
Other Data:					
Number of employees (full-time equivalent)	171	173	154	154	137
Number of banking facilities	11	11	10	10	12

- (1) Noninterest income includes gains and losses on securities.
- (2) Tangible book value per share is the shareholder equity less the carry value of the preferred stock and less the goodwill and intangible assets, divided by the total shares of common outstanding. Book value per share is the shareholder equity less the liquidation preference of the preferred stock, divided by the total shares of common outstanding.
- (3) Net interest margin is the ratio of net interest income to average interest-earning assets.
- (4) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.
- (5) Noninterest income to average assets excludes gains and losses on securities.
- (6) The efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income, excluding gains and losses on securities.
- (7) Earnings on average assets are net income divided by average total assets.
- (8) Earnings on average equity are net income divided by average common equity.
- (9) Excludes loans held for sale.

**CIB MARINE BANCSHARES, INC.**  
**Consolidated Balance Sheets (audited)**

	December 31, 2016	December 31, 2015
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$10,291	\$9,170
Reverse repurchase agreements	24,275	—
Securities available for sale	112,072	94,702
Loans held for sale	11,469	12,275
Loans	483,518	445,050
Allowance for loan losses	(7,592)	(8,064)
Net loans	475,926	436,986
Federal Home Loan Bank stock	3,803	2,170
Premises and equipment, net	4,427	4,771
Accrued interest receivable	1,382	1,296
Other real estate owned, net	3,159	4,126
Bank owned life insurance	4,389	4,285
Goodwill and other intangible assets	221	243
Other assets	2,145	1,209
Total assets	\$653,559	\$571,233
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing demand	\$77,154	\$77,580
Interest-bearing demand	33,832	33,192
Savings	176,435	162,663
Time	195,676	170,136
Total deposits	483,097	443,571
Short-term borrowings	96,944	58,883
Accrued interest payable	349	321
Other liabilities	3,646	2,872
Total liabilities	584,036	505,647
<b>Stockholders' Equity</b>		
Preferred stock, \$1 par value; 5,000,000 authorized shares; 7% fixed rate noncumulative perpetual issued-55,624 shares of Series A and 4,376 shares of Series B convertible; aggregate liquidation preference-\$60,000	51,000	51,000
Common stock, \$1 par value; 50,000,000 authorized shares; 18,346,391 issued shares; 18,135,344 outstanding shares	18,346	18,346
Capital surplus	158,552	158,493
Accumulated deficit	(155,517)	(159,588)
Accumulated other comprehensive loss, net	(2,329)	(2,136)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	69,523	65,586
Total liabilities and stockholders' equity	\$653,559	\$571,233

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

	Years Ended December 31,	
	2016	2015
	(Dollars in thousands)	
<b>Interest Income</b>		
Loans	\$18,240	\$15,972
Loans held for sale	472	341
Securities	2,071	2,206
Other investments	166	11
Total interest income	20,949	18,530
<b>Interest Expense</b>		
Deposits	2,753	2,327
Short-term borrowings	244	50
Total interest expense	2,997	2,377
Net interest income	17,952	16,153
Provision for loan losses	(548)	61
Net interest income after provision for loan losses	18,500	16,092
<b>Noninterest Income</b>		
Deposit service charges	470	450
Other service fees	211	236
Mortgage banking revenue, net	7,137	3,724
Other income	555	444
Net gains on sale of securities	—	13
Net gains (losses) on sale of assets and (write downs)	1,027	(441)
Total noninterest income	9,400	4,426
<b>Noninterest Expense</b>		
Compensation and employee benefits	16,421	13,515
Equipment	1,148	1,068
Occupancy and premises	1,591	1,576
Data processing	613	621
Federal deposit insurance	409	425
Professional services	775	942
Telephone and data communication	390	411
Insurance	230	221
Other expense	2,202	2,338
Total noninterest expense	23,779	21,117
Income (loss) from operations before income taxes	4,121	(599)
Income tax expense	50	6
<b>Net income (loss)</b>	4,071	(605)
Preferred stock dividends	—	—
<b>Net income (loss) allocated to common stockholders</b>	\$4,071	\$(605)