



May 9, 2013

Dear Shareholder,

CIB Marine Bancshares, Inc. (OTCQB: CIBH) recently filed with the federal banking regulators its quarterly regulatory financial reports through the first three months of 2013. CIB Marine and its subsidiary CIBM Bank both reported earnings, improved capital ratios and other positive trends for the quarter.

### **Results of Operations - Summary**

Earnings from operations for the first quarter of 2013 were \$34,000 compared to a loss of \$111,000 for the same period of 2012. Both basic and diluted net incomes per share of common stock were nominal compared to a loss per share of \$0.01 for the same period of 2012.

- The improvement in earnings was primarily related to lower noninterest expense and improved noninterest income more than offsetting a decline in net interest income.
- Net interest income declined by \$1.0 million from \$4.8 million in the first quarter of 2012 to \$3.8 million in the same period of 2013. The decline was primarily the result of a decline in yields on earning assets of 76 basis points versus a 21 basis point decline in the cost of interest bearing liabilities. The decline in earning asset yields was a result of declines in the yields for both loan and securities.
- Noninterest income increased \$0.7 million during the first quarter of 2013 compared to the same period in 2012 from a loss of \$0.3 million during the first quarter of 2012 to income of \$0.4 million in the same period of 2013. The improvement was primarily related to net gains on securities and other real estate owned in the first quarter of 2013 compared to other-than-temporary impairment from securities and losses in other real estate owned in the first quarter of 2012.
- Noninterest expense improved \$0.5 million during the first quarter of 2013 compared to the same period in 2012 from \$4.6 million during the first quarter of 2012 to \$4.1 million in the same period of 2013. The decline was primarily the result of lower federal deposit insurance and reduced professional service expenses, but also lower expenses for compensation and employee benefits, insurance and occupancy.

### **Financial Condition - Summary**

During the first three months of 2013, CIB Marine showed improvement compared to one year ago in certain key asset quality and capital measures. In addition to stronger regulatory capital ratios, the book value per share of common stock was \$0.42 at March 31, 2013, compared to \$0.29 at March 31, 2012. Total assets have declined by \$33 million over the same time period, primarily the result of reductions in loan portfolio balances, some of which were lower quality assets.

- The March 31, 2013, Tier 1 leverage ratio for CIB Marine improved to 14.67% from 13.49% at March 31, 2012 and 14.39% at December 31, 2012.
- Non-accrual loans were \$11.4 million at March 31, 2013, an improvement from the \$15.5 million reported at March 31, 2012, but up from the \$8.9 million reported at December 31, 2012. Other real estate owned was \$10.4 million compared to \$8.0 million reported at March 31, 2012, and \$10.5 million at December 31, 2012.
- Net charge-offs annualized to average loans increased to 2.81% during the first quarter of 2013, compared to 0.12% during the same period of 2012. The rise in net charge-offs was primarily the result of a few commercial real estate loan charge-offs during the first quarter of 2013 compared to significant recoveries of previously charged off purchased home equity and commercial real estate loans during the first quarter of 2012.

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

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- The allowance for loan losses was down to 2.90% at March 31, 2013, compared to 4.62% at March 31, 2012. The decline is primarily the result of the charge-off of specific reserves for a few commercial real estate loans individually evaluated for impairment.

Also, attached please find unaudited financial results for the quarter ending March 31, 2013 – including selected financial information, a balance sheet and an income statement. Please visit our website, [www.cibmarine.com](http://www.cibmarine.com), for additional detailed information about our financial results for both recent and prior periods, as well as a link to the quarterly reports we file with our regulators.

### **Concluding Comments**

Our results in the first quarter of 2013 continue the progress that we reported for the full year of 2012. Importantly, the significant shrinkage in our loan portfolio has begun to subside. This is the result of new business development efforts in both our commercial and consumer business that I have reported to you in previous letters. We can still expect variability in this trend, but this is a welcome result from our activities. We continue to actively work on opportunities to expand our business as we move into 2013.

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

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### **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**

	<u>Quarters Ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
	(Dollars in thousands, except share and per share data)	
<b>Selected Statements of Operations Data</b>		
Interest income	\$4,490	\$5,767
Interest expense	661	923
Net interest income	3,829	4,844
Provision for loan losses	78	73
Net interest income after provision for loan losses	3,751	4,771
Noninterest income (loss)	379	(306)
Noninterest expense	4,096	4,576
Income (loss) before income taxes	34	(111)
Income tax expense	—	—
<b>Net income (loss)</b>	<b>\$34</b>	<b>\$(111)</b>
<b>Common Share Data</b>		
Basic net income (loss)	0.00	(0.01)
Diluted net income (loss)	0.00	(0.01)
Dividends	—	—
Book value per share	\$0.42	\$0.29
Weighted average shares outstanding-basic	18,127,892	18,127,892
Weighted average shares outstanding-diluted	35,631,892	18,127,892
Total assets	\$468,772	\$502,104
Loans	318,372	348,386
Allowance for loan losses	(9,243)	(16,092)
Investment securities	89,733	88,345
Deposits	393,602	422,537
Borrowings	6,103	11,287
Stockholders' equity	67,684	65,201
<b>Financial Ratios and Other Data</b>		
Performance ratios:		
Net interest margin (1)	3.42%	4.00%
Noninterest income (loss) to average assets (2)	0.29	(0.25)
Noninterest expense to average assets	3.53	3.69
Efficiency ratio (3)	98.32	100.84
Income (loss) on average assets (4)	0.03	(0.09)
Income (loss) on average equity (5)	0.20	(0.69)
Asset quality ratios:		
Nonaccrual loans to total loans (6)	3.59%	4.46%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (6)	6.25	7.39
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total assets (6)	6.47	6.73
Allowance for loan losses to total loans	2.90	4.62
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (6)	46.42	62.52
Net charge-offs annualized to average loans	2.81	0.12
Capital ratios:		
Total equity to total continuing assets	14.44%	12.99%
Total risk-based capital ratio	19.60	17.49
Tier 1 risk-based capital ratio	18.34	16.20
Leverage capital ratio	14.67	13.49
Other data:		
Number of employees (full-time equivalent)	134	139
Number of banking facilities	11	13

(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 continuing operations divided by average total assets.

(5) Income (loss) on average equity is net income (loss) from continuing 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)**

	March 31, 2013	December 31, 2012
	(Dollars in thousands, except share data)	
<b>Assets</b>		
Cash and due from banks	\$ 46,070	\$ 53,530
Investment securities:		
Securities available for sale	87,007	86,480
Trading securities	2,726	3,273
Total investment securities	89,733	89,753
Loans held for sale	327	347
Loans	318,372	318,503
Allowance for loan losses	(9,243)	(11,378)
Net loans	309,129	307,125
Federal Home Loan Bank stock	2,170	2,956
Premises and equipment, net	4,125	4,161
Accrued interest receivable	1,482	1,298
Other real estate owned, net	10,426	10,493
Bank owned life insurance	4,023	4,000
Other assets	1,287	1,466
Total assets	\$ 468,772	\$ 475,129
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing demand	\$ 55,781	\$ 54,163
Interest-bearing demand	30,948	31,496
Savings	155,588	154,124
Time	151,285	154,901
Total deposits	393,602	394,684
Short-term borrowings	6,103	10,414
Accrued interest payable	259	271
Other liabilities	1,124	2,131
Total liabilities	401,088	407,500
<b>Stockholders' Equity</b>		
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	(157,897)	(157,931)
Accumulated other comprehensive income related to available for sale securities	1,945	1,924
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(3,674)	(3,674)
Accumulated other comprehensive loss, net	(1,729)	(1,750)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	67,684	67,629
Total liabilities and stockholders' equity	\$ 468,772	\$ 475,129

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

	Quarters Ended	
	March 31,	
	2013	2012
	(Dollars in thousands)	
<b>Interest and Dividend Income</b>		
Loans	\$3,775	\$4,704
Loans held for sale	(12)	34
Securities	701	1,007
Other investments	26	22
Total interest income	4,490	5,767
<b>Interest Expense</b>		
Deposits	658	867
Short-term borrowings	3	3
Federal Home Loan Bank advances	—	53
Total interest expense	661	923
Net interest income	3,829	4,844
Provision for loan losses	78	73
Net interest income after provision for loan losses	3,751	4,771
<b>Noninterest Income</b>		
Deposit service charges	103	134
Other service fees	46	58
Other income	36	12
Total other-than-temporary impairment losses		
Total impairment loss	—	(128)
Loss recognized in other comprehensive income	—	—
Net impairment loss recognized in earnings	—	(128)
Gain on sale of securities, net	152	—
Net gains (loss) on sale of assets	42	(382)
Total noninterest income (loss)	379	(306)
<b>Noninterest Expense</b>		
Compensation and employee benefits	2,345	2,432
Equipment	225	202
Occupancy and premises	351	384
Data processing	150	142
Federal deposit insurance	128	266
Professional services	180	382
Telephone and data communication	103	104
Insurance	139	216
Other expense	475	448
Total noninterest expense	4,096	4,576
Income (loss) from continuing operations before income taxes	34	(111)
Income tax expense	—	—
<b>Net income (loss)</b>	34	(111)
Preferred stock dividends	—	—
<b>Net income (loss) allocated to common stockholders</b>	<b>\$34</b>	<b>\$(111)</b>
<b>Other comprehensive income</b>		
Total other comprehensive income	21	1,086
Comprehensive income	\$55	\$975