



August 7, 2014

Dear Shareholder,

CIB Marine Bancshares, Inc. (OTCQB: CIBH) is pleased to report its financial results for the quarter ended June 30, 2014. The consolidated company, CIB Marine, and its subsidiary, CIBM Bank, both reported earnings for the second quarter of 2014.

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

Earnings from operations for the second quarter of 2014 and the six months ended June 30, 2014, were \$26,000 and \$159,000, respectively, compared to a loss of \$0.9 million and \$0.8 million for those same periods in 2013. Below are some additional operating highlights:

- CIBM Bank's earnings for the second quarter of 2014 and the six months ended June 30, 2014, were \$0.4 million and \$0.7 million, respectively, compared to a loss of \$0.5 million and \$0.2 million for those same periods in 2013.
- Net interest income increased by \$0.1 million and \$0.2 million for the second quarter of 2014 and the six months ended June 30, 2014, respectively, compared to those same periods of 2013. The increase was primarily the result of lower costs on interest-bearing deposits as well as higher average loan and investment balances versus lower interest-earning due from bank balances offset in part by lower loan yields. Net interest margins decreased slightly from 3.44% to 3.42% from the second quarter of 2013 to the same period of 2014, and increased from 3.43% to 3.49% for the six months ended June 30, 2013 to the same period for 2014, respectively.
- Noninterest income increased by \$1.0 million and \$1.3 million for the second quarter of 2014 and the six months ended June 30, 2014, respectively, compared to those same periods of 2013. The increase was primarily the result of net mortgage banking revenues from the Avenue Mortgage operations.
- Noninterest expense increased by \$0.1 million and \$0.5 million for the second quarter of 2014 and the six months ended June 30, 2014, respectively, compared to those same periods of 2013. The increase was primarily the result of higher compensation expenses related to the Avenue Mortgage operations, partially offset by lower occupancy, insurance, FDIC deposit insurance and other expenses.

### **Financial Condition – Summary**

CIB Marine increased its loan balances by \$23 million since the start of the year, including \$16 million over the prior quarter. Below are other select highlights of our financial condition as of June 30, 2014:

- The book value per share of common stock at June 30, 2014, was \$0.40, up from \$0.34 at December 31, 2013.
- Total assets increased \$28 million since the start of the year including \$13 million during the second quarter 2014. Over the second quarter loans increased \$16 million, cash and cash equivalents increased \$5 million, securities decreased \$5 million and other real estate owned decreased \$3 million. Total liabilities increased \$27 million since the start of the year including \$12 million during the second quarter 2014. Over the second quarter customer money market deposit accounts increased by \$10 million due to promotional activity and short-term borrowings, primarily by CIBM Bank from the Federal Home Loan Bank of Chicago, increased by \$7 million.
- The nonperforming asset ratio, or the sum of nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total assets, declined from 6.43% at June 30, 2013, and 4.48% at December 31, 2013, to 3.83% at June 30, 2014, demonstrating continued, steady progress in asset quality

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and building on prior quarterly improvements.

- CIB Marine and CIBM Bank continue to maintain elevated levels of traditional capital measures and have reported strong capital positions in relation to regulatory requirements for a “well capitalized” bank.
- CIB Marine is reviewing the new capital rules that are to be implemented by banking regulators January 1, 2015. The new rules introduce a new capital measure (i.e., the Common Equity Tier 1 capital ratio) and related minimum ratios, sets higher minimum capital requirements for some of the current capital ratios, changes the definition of capital and changes risk weightings for the various regulatory capital and asset components used in the capital ratios, and institutes a capital conservation buffer that is used with eligible retained income criteria to impose new restrictions on the payment of dividends and certain compensation.

Attached please find unaudited financial results for the quarter ended June 30, 2014, including select financial information, a balance sheet and an income statement.

Please visit our website, [www.cibmarine.com](http://www.cibmarine.com), 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. You may request a paper copy of our quarterly results, by contacting Shareholder Relations Manager, Elizabeth Neighbors, at (262) 695-6010 or [Elizabeth.Neighbors@cibmarine.com](mailto:Elizabeth.Neighbors@cibmarine.com), and she will put you on our mailing list.

### **Concluding Comments**

Our second quarter and first half results continued to show positive momentum for our company. Despite being off the earnings pace of the first quarter, many of the important indicators for earnings continued to improve. Of particular note is the comparison to the same period in the prior year when both our consolidated and bank subsidiary results posted losses.

As I noted in my letter in the first quarter, contributions continue to come from our corporate, retail and mortgage lines of business. I have discussed previously the positive impact that our mortgage business has had on our earnings. We are in the stronger part of the annual mortgage cycle and that is flowing to our bottom line. In addition, and very significantly, our interest and dividend income was larger than in the comparable quarter from the prior year. Our net interest income made that turnaround in the last quarter. This is a strong indication of the improvement in the fundamentals for our company.

The primary reason for this turnaround is the contribution from our loan growth. As noted in the opening comments of our letter, loans increased by \$16 million for the quarter. Combined with the increase we achieved in the first quarter, our loans grew 13.7% from the prior year - a substantial increase both as compared to peers and in its own right. Importantly, the increase came from a good mix of types of commercial loans and businesses. Our corporate bankers continue to add quality prospects to their already robust pipelines.

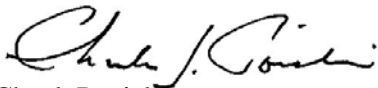
Our nonperforming assets fell for the quarter, primarily the result of the sale of a large OREO asset that I noted in my last letter. We saw an uptick in our nonaccrual loans but the aforementioned asset sale offset this in the total. A comparison with the prior year’s first half results shows a significant improvement.

I have also kept you abreast of the product enhancements we have been working on over the past few years. In the first quarter of this year, our company introduced the ability for our clients to deposit checks through a phone or tablet. This convenience has been well received by our customers. Over 10% of our online customers have signed up for the service and the amount of deposits received is increasing steadily. In this quarter we have been putting the finishing touches on a new and attractive checking product for our clients. The product rewards the client with a higher interest rate on their checking balances for certain other product usage and has other desirable features. It will be a differentiator for our retail business and I will be discussing the broader impact this product and others like it will have on the way we conduct our business in the quarters ahead.

We continue to emphasize the motto of “Service, Solutions and Integrity” with our clients and strive to

explain and demonstrate it in a manner that makes it concrete. Our growth demonstrates that our clients have responded favorably and, 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 & 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.

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 Consolidated Financial Data (unaudited)**

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>				
Interest and dividend income	\$4,480	\$4,467	\$8,896	\$8,957
Interest expense	534	644	1,046	1,305
Net interest income	3,946	3,823	7,850	7,652
Provision for loan losses	150	86	161	164
Net interest income after provision for loan losses	3,796	3,737	7,689	7,488
Noninterest income (loss) (1)	873	(80)	1,583	317
Noninterest expense	4,645	4,509	9,113	8,623
Income (loss) before income taxes	24	(852)	159	(818)
Income tax expense	(2)	—	—	—
<b>Net income (loss)</b>	<b>\$26</b>	<b>(852)</b>	<b>\$159</b>	<b>\$(818)</b>
<b>Common Share Data</b>				
Basic net income (loss)	\$0.00	\$(0.05)	\$0.01	\$(0.05)
Diluted net income (loss)	\$0.00	\$(0.05)	\$0.00	\$(0.05)
Dividends	—	—	—	—
Book value per share	\$0.40	\$0.34	\$0.40	\$0.34
Weighted average shares outstanding-basic	18,127,892	18,127,892	18,127,892	18,127,892
Weighted average shares outstanding-diluted	35,631,892	18,127,892	35,631,892	18,127,892
<b>Financial Condition Data</b>				
Total assets	\$488,326	\$461,835	\$488,326	\$461,835
Loans	364,427	320,383	364,427	320,383
Allowance for loan losses	(8,123)	(8,694)	(8,123)	(8,694)
Investment securities	98,378	89,466	98,378	89,466
Deposits	384,838	390,316	384,838	390,316
Borrowings	34,273	3,776	34,273	3,776
Stockholders' equity	67,213	66,121	67,213	66,121
<b>Financial Ratios and Other Data</b>				
Performance ratios:				
Net interest margin (2)	3.42%	3.44%	3.49%	3.43%
Net interest spread (3)	3.26	3.26	3.33	3.25
Noninterest income (loss) to average assets (4)	0.72	(0.03)	0.67	0.14
Noninterest expense to average assets	3.88	3.89	3.90	3.71
Efficiency ratio (5)	96.65	118.97	96.77	108.14
Income (loss) on average assets (6)	0.02	(0.73)	0.07	(0.35)
Income (loss) on average equity (7)	0.16	(5.06)	0.48	(2.44)
Asset quality ratios:				
Nonaccrual loans to total loans (8)	1.91%	2.95%	1.91%	2.95%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (8)	3.55	5.99	3.55	5.99
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total assets (8)	3.83	6.43	3.83	6.43
Allowance for loan losses to total loans	2.23	2.71	2.23	2.71
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (8)	62.80	45.31	62.80	45.31
Net charge-offs annualized to average loans	0.34	0.79	0.20	1.80
Capital ratios:				
Total equity to total continuing assets	13.76%	14.32%	13.76%	14.32%
Total risk-based capital ratio	17.60	19.26	17.60	19.26
Tier 1 risk-based capital ratio	16.35	18.00	16.35	18.00
Leverage capital ratio	14.12	14.69	14.12	14.69
Other data:				
Number of employees (full-time equivalent)	151	127	151	127
Number of banking facilities	10	11	10	11

(1) Noninterest income includes gains and losses on securities.

(2) Net interest margin is the ratio of net interest income to average interest-earning assets.

(3) Net interest spread is the yield on average interest-earning assets less the rate on average interest-bearing liabilities.

(4) Noninterest income to average assets excludes gains and losses on securities.

(5) The efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income, excluding gains and losses on securities.

(6) Earnings on average assets are net income divided by average total assets.

(7) Earnings on average equity are net income divided by average common equity.

(8) Excludes loans held for sale from nonaccrual loans, nonperforming assets and 90 days or more past due and still accruing.

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<b>(Dollars in thousands, except share data)</b>	
<b>Assets</b>		
Cash and due from banks	\$11,356	\$10,886
Investment securities:		
Securities available for sale	96,897	89,043
Trading securities	1,481	1,688
Total investment securities	98,378	90,731
Loans held for sale	2,477	1,226
Loans	364,427	341,332
Allowance for loan losses	(8,123)	(8,308)
Net loans	356,304	333,024
Federal Home Loan Bank stock	2,170	2,170
Premises and equipment, net	4,744	4,834
Accrued interest receivable	1,229	1,288
Other real estate owned, net	5,789	9,700
Bank owned life insurance	4,136	4,089
Goodwill and other intangible assets	276	287
Other assets	1,467	1,918
Total assets	\$488,326	\$460,153
<b>Liabilities and Stockholders' Equity</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$66,649	\$71,425
Interest-bearing demand	29,648	30,471
Savings	155,995	147,058
Time	132,546	138,947
Total deposits	384,838	387,901
Short-term borrowings	34,273	4,348
Accrued interest payable	229	235
Other liabilities	1,773	1,474
Total liabilities	421,113	393,958
<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	158,493	158,493
Accumulated deficit	(159,126)	(159,285)
Accumulated other comprehensive income related to available for sale securities	1,401	542
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(2,372)	(2,372)
Accumulated other comprehensive loss, net	(971)	(1,830)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	67,213	66,195
Total liabilities and stockholders' equity	\$488,326	\$460,153

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Dollars in thousands)			
<b>Interest and Dividend Income</b>				
Loans	\$3,759	\$3,818	\$7,496	\$7,593
Loans held for sale	36	3	57	(9)
Securities	683	621	1,339	1,322
Other investments	2	25	4	51
Total interest income	4,480	4,467	8,896	8,957
<b>Interest Expense</b>				
Deposits	524	641	1,032	1,299
Short-term borrowings	10	3	14	6
Total interest expense	534	644	1,046	1,305
Net interest income	3,946	3,823	7,850	7,652
Provision for loan losses	150	86	161	164
Net interest income after provision for loan losses	3,796	3,737	7,689	7,488
<b>Noninterest Income</b>				
Deposit service charges	108	110	205	213
Other service fees	50	46	98	92
Mortgage banking revenue, net	686	—	1,060	—
Other income	54	55	227	109
Net gain (loss) on sale of securities	13	(47)	16	(5)
Net loss on assets	(38)	(244)	(23)	(92)
Total noninterest income (loss)	873	(80)	1,583	317
<b>Noninterest Expense</b>				
Compensation and employee benefits	2,893	2,398	5,702	4,743
Equipment	236	212	434	437
Occupancy and premises	316	460	673	811
Data processing	159	150	312	300
Federal deposit insurance	109	158	207	286
Professional services	262	401	532	581
Telephone and data communication	113	95	218	198
Insurance	81	125	174	264
Other expense	476	510	861	1,003
Total noninterest expense	4,645	4,509	9,113	8,623
Income (loss) from operations before income taxes	24	(852)	159	(818)
Income tax benefit	(2)	—	—	—
<b>Net income (loss)</b>	26	(852)	159	(818)
Preferred stock dividends	—	—	—	—
<b>Net income (loss) allocated to common stockholders</b>	<b>\$26</b>	<b>\$(852)</b>	<b>\$159</b>	<b>\$(818)</b>