



November 9, 2012

Dear Shareholder,

CIB Marine Bancshares, Inc. (OTCQB: CIBH) recently filed with the federal banking regulators its quarterly regulatory financial reports through the first nine months of 2012. For the second consecutive quarter and the third for CIBM Bank, we have maintained positive earnings, primarily through continued resolution of problem assets. Consequently our Company's overall financial position is stronger, demonstrating a solid capital position and reduced levels of problem assets, as compared to a year ago.

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

Earnings from operations for the third quarter and the first nine months of 2012 were \$0.3 million and \$1.2 million, respectively, an improvement of \$0.9 million compared to the net loss of \$0.6 million for the third quarter of 2011 and \$4.6 million compared to the net loss of \$3.4 million for the first nine months of 2011. Earnings per share of common stock was \$0.02 and \$0.06, for the three and nine months ended September 30, 2012, respectively, compared to losses per share of \$0.03 and \$0.19, respectively, for the same periods of 2011. On a diluted basis the earnings per share was \$0.01 and \$0.03 for the three and nine months ended September 30, 2012, respectively.

- The improvement in earnings was primarily due to a reduction in the provision for loan losses resulting from recoveries of loans previously charged-off, reduced net charge-offs and improved credit quality. The third quarter 2012 provision for loan losses was \$0.2 million, an improvement of \$1.4 million over the \$1.6 million during the same period of 2011; and the reversal of provisions for the first nine months of 2012 was \$2.5 million, an improvement of \$6.9 million over the \$4.4 million in provision expense during the same period of 2011.
- Net interest income declined by \$0.7 million from \$5.1 million in the third quarter of 2011 to \$4.4 million in the same period of 2012; and by \$1.4 million from \$15.2 million during the first nine months of 2011 to \$13.8 million in the same period of 2012. The decline was primarily the result of a reduction in earning assets.
- Noninterest income increased during the third quarter of 2012 compared to the same period in 2011 from \$0.6 million to \$1.3 million, or by \$0.7 million, due to a one-time gain on sale of non-agency residential mortgage backed securities transferred to a trading account in the second quarter of 2012; and decreased by \$0.6 million from \$1.0 million to \$0.4 million for the first nine months of 2011 and 2012, respectively, due to net impairment losses on securities, offset by the gains on sale of securities.
- Noninterest expense increased \$0.4 million from \$4.7 million during the third quarter of 2011 to \$5.1 million in the same period of 2012. The increase was primarily the result of \$0.6 million in write downs and losses on assets partially offset by reductions in other noninterest expenses. Noninterest expense for the first nine months of 2012 was \$15.5 million compared to \$15.7 million during the same period of 2011. The \$0.2 million decline was the result of reductions in professional fees, equipment, occupancy and premise, data processing, FDIC insurance costs and other expenses partially offset by a \$0.7 million increase in write downs and losses on assets primarily related to one property in other real estate owned.

### **Financial Condition - Summary**

During the first nine months of 2012, CIB Marine continued to show improvement in certain key asset quality measures and a smaller balance sheet. The book value per share of common stock was \$0.43 at September 30, 2012, compared to \$0.23 at December 31, 2011. Total Assets have declined by \$23 million from December 31, 2011, to September 30, 2012. The decline was primarily the result of reductions in the loan portfolio balances,

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

*Phone: (262) 695-6010 • Fax: (262) 695-6014*

*1930 West Bluemound Road • Suite D • Waukesha, WI 53186*

some of which were lower quality assets.

- The September 30, 2012 Tier 1 leverage ratio for CIB Marine improved to 14.11% from 13.15% at December 31, 2011.
- Non-accrual loans improved from \$20.0 million at December 31, 2011, to \$12.1 million at September 30, 2012 and other real estate was up over the same time period by \$0.4 million to \$7.5 million at September 30, 2012.
- Net charge-offs annualized to average loans improved to 0.12% during the third quarter of 2012, compared to 1.18% during the same period of 2011; and improved to 0.53% during the first nine months of 2012 compared to 1.22% during the same period of 2011.

Also, attached please find unaudited financial results for the quarter and year to date ending September 30, 2012 – 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.

### **Future Shareholder Communications**

As a part of the cost savings connected with the deregistration of our common stock with the Securities and Exchange Commission, we will continue to release our financial results on a quarterly basis via our website ([www.cibmarine.com](http://www.cibmarine.com)), but will no longer be mailing a quarterly shareholder letter. Should you want a paper 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) and we will put you on our mailing list.

### **Concluding Comments**

Our results in the third quarter of 2012 continue the progress that we reported for the full year of 2011 and for the first two quarters of 2012. We continue to see positive results from our customer initiatives in both our commercial and retail businesses. In both lines of business, we have added additional experienced bankers to better serve our clients. Along with our existing bankers, they are beginning to overcome the loss of earning assets we have experienced as a result of our aggressive work to resolve problem assets.

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

## **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**

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>				
Interest income	\$5,136	\$6,376	\$16,366	\$19,662
Interest expense	753	1,257	2,532	4,450
Net interest income	4,383	5,119	13,834	15,212
Provision for (reversal of) loan losses	172	1,610	(2,483)	4,378
Net interest income after provision for (reversal of) loan losses	4,211	3,509	16,317	10,834
Noninterest income	1,266	606	408	1,029
Noninterest expense	5,134	4,728	15,502	15,691
Income (loss) from continuing operations before income taxes	343	(613)	1,223	(3,828)
Income tax expense	—	—	50	—
<b>Net income (loss) from continuing operations</b>	<b>343</b>	<b>(613)</b>	<b>1,173</b>	<b>(3,828)</b>
<b>Net income from discontinued operations</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>379</b>
<b>Net income (loss)</b>	<b>\$343</b>	<b>\$(613)</b>	<b>\$1,173</b>	<b>\$(3,449)</b>
<b>Common Share Data</b>				
Basic:				
Income (loss) from continuing operations	\$0.02	\$(0.03)	\$0.06	\$(0.21)
Income from discontinued operations	—	—	—	0.02
Net income (loss)	0.02	(0.03)	0.06	(0.19)
Diluted:				
Income (loss) from continuing operations	\$0.01	\$(0.03)	\$0.03	\$(0.21)
Income from discontinued operations	—	—	—	0.02
Net income (loss)	0.01	(0.03)	0.03	(0.19)
Dividends	—	—	—	—
Book value per share	\$0.43	\$0.36	\$0.43	\$0.36
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
Total assets excluding assets of company held for disposal	\$480,931	\$516,340	\$480,931	\$516,340
Loans	327,383	363,274	327,383	363,274
Allowance for loan losses	(12,285)	(15,461)	(12,285)	(15,461)
Investment securities	88,259	95,655	88,259	95,655
Deposits	401,898	433,038	401,898	433,038
Borrowings	9,396	14,845	9,396	14,845
Stockholders' equity	67,759	66,612	67,759	66,612
<b>Financial Ratios and Other Data</b>				
Performance ratios:				
Net interest margin (1)	3.67%	3.93%	3.83%	3.73%
Noninterest income to average assets (2)	0.42	0.49	0.29	0.28
Noninterest expense to average assets	4.18	3.49	4.19	3.72
Efficiency ratio (3)	104.88	81.79	103.97	95.84
Income (loss) on average assets (4)	0.28	(0.45)	0.32	(0.91)
Income (loss) on average equity (5)	2.02	(3.61)	2.37	(7.51)
Asset quality ratios:				
Nonaccrual loans to total loans (6)	3.69%	6.53%	3.69%	6.53%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (6)	7.03	9.51	7.03	9.51
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total assets (6)	6.34	8.11	6.34	8.11
Allowance for loan losses to total loans	3.75	4.26	3.75	4.26
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (6)	53.35	44.73	53.35	44.73
Net charge-offs annualized to average loans	0.12	1.18	0.53	1.22
Capital ratios:				
Total equity to total continuing assets	14.09%	12.90%	14.09%	12.90%
Total risk-based capital ratio	19.09	16.92	19.09	16.92
Tier 1 risk-based capital ratio	17.82	15.64	17.82	15.64
Leverage capital ratio	14.11	12.93	14.11	12.93
Other data:				
Number of employees (full-time equivalent)	135	130	135	130
Number of banking facilities	12	14	12	14

- (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)**

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Dollars in thousands, except share data)</b>	
<b>Assets</b>		
Cash and due from banks	\$ 59,037	\$ 44,828
Investment securities:		
Securities available for sale	83,983	89,009
Trading securities	4,276	—
Total investment securities	88,259	89,009
Loans held for sale	369	2,120
Loans	327,383	357,632
Allowance for loan losses	(12,285)	(16,128)
Net loans	315,098	341,504
Federal Home Loan Bank stock	3,335	11,555
Premises and equipment, net	4,254	4,559
Accrued interest receivable	1,639	1,648
Other real estate owned	7,484	7,088
Other assets	1,456	1,665
Total assets	\$480,931	\$503,976
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Noninterest-bearing demand	\$ 59,098	\$ 58,884
Interest-bearing demand	28,246	29,080
Savings	152,549	154,365
Time	162,005	180,257
Total deposits	401,898	422,586
Short-term borrowings	9,396	9,784
Federal Home Loan Bank advances	—	5,000
Accrued interest payable	277	376
Other liabilities	1,601	2,008
Total liabilities	413,172	439,754
Commitments and contingent liabilities (Note 10)	—	—
<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	158,497	158,480
Accumulated deficit	(158,125)	(159,298)
Accumulated other comprehensive income related to available for sale securities	2,414	2,113
Accumulated other comprehensive loss related to non-credit other-than-temporary impairments	(3,844)	(5,890)
Accumulated other comprehensive loss, net	(1,430)	(3,777)
Treasury stock 218,499 shares at cost	(529)	(529)
Total stockholders' equity	67,759	64,222
Total liabilities and stockholders' equity	\$480,931	\$503,976

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
<b>Interest and Dividend Income</b>				
Loans	\$4,232	\$4,998	\$13,447	\$15,312
Loans held for sale	30	167	98	371
Securities	840	1,187	2,729	3,909
Other investments	34	24	92	70
Total interest income	5,136	6,376	16,366	19,662
<b>Interest Expense</b>				
Deposits	723	1,173	2,389	4,155
Short-term borrowings	5	5	11	11
Federal Home Loan Bank advances	25	79	132	284
Total interest expense	753	1,257	2,532	4,450
Net interest income	4,383	5,119	13,834	15,212
Provision for (reversal of) loan losses	172	1,610	(2,483)	4,378
Net interest income after provision for (reversal of) loan losses	4,211	3,509	16,317	10,834
<b>Noninterest Income</b>				
Deposit service charges	125	165	383	496
Other service fees	49	48	168	123
Other income	19	58	111	108
Total other-than-temporary impairment losses				
Total impairment loss	—	(99)	(161)	(226)
Loss recognized in other comprehensive income	—	43	(1,261)	95
Net impairment loss recognized in earnings	—	(56)	(1,422)	(131)
Gain on sale of securities, net	754	—	754	—
Gains on sale of assets	319	391	414	433
Total noninterest income	1,266	606	408	1,029
<b>Noninterest Expense</b>				
Compensation and employee benefits	2,492	2,460	7,479	7,216
Equipment	197	239	618	742
Occupancy and premises	373	311	1,120	1,291
Data processing	164	133	450	571
Federal deposit insurance	259	250	788	930
Professional services	336	364	1,063	1,352
Telephone and data communication	104	117	318	368
Insurance	140	218	547	524
Write downs and losses on assets	618	—	1,704	1,012
Other expense	451	636	1,415	1,685
Total noninterest expense	5,134	4,728	15,502	15,691
Income (loss) from continuing operations before income taxes	343	(613)	1,223	(3,828)
Income tax expense	—	—	50	—
<b>Income (loss) from continuing operations</b>	343	(613)	1,173	(3,828)
<b>Income from discontinued operations</b>	—	—	—	379
<b>Net income (loss)</b>	343	(613)	1,173	(3,449)
Preferred stock dividends	—	—	—	—
<b>Net income (loss) allocated to common stockholders</b>	<b>\$343</b>	<b>\$(613)</b>	<b>\$1,173</b>	<b>\$(3,449)</b>
<b>Other comprehensive income (loss):</b>				
Total other comprehensive income	395	31	2,414	1,293
Comprehensive income (loss)	\$738	\$(582)	\$3,587	\$(2,156)