



**CIB MARINE
BANCSHARES, INC.**

2012 ANNUAL REPORT

Service | Solutions | Integrity

OUR MISSION:

CIB Marine provides personalized banking and related financial solutions to small and middle market businesses, their owners and employees, and consumer households in our communities. We leverage our entire banking team to provide our clients superior service with a high degree of professionalism and integrity. We operate our company to support our clients' enduring success, contribute to our communities' quality of life and economic development, provide growth opportunities and challenge for our employees and increase value for our shareholders.



John P. Hickey, Jr., Chairman and Charles J. Ponicki, CEO

ABOUT:

CIB Marine Bancshares, Inc. owns and operates CIBM Bank, which serves communities throughout Central Illinois; Milwaukee, Wisconsin and Indianapolis, Indiana through its full-service banking offices. CIBM Bank operates under the name "Central Illinois Bank" in its central Illinois markets, and "Marine Bank" in its Indiana and Wisconsin markets.

We strive to listen to the plans of our clients and collaborate to help goals be achieved. Our seasoned corporate bankers work with business owners to create solutions customized to their needs. We're delighted to assist customers in our lobbies, their offices or by phone and internet—across the communities we serve.

We offer a full array of personal banking, business banking and treasury management services. We offer products and services that help meet the needs of our clients. Banking is more than just a checking or savings account; it's a lifetime relationship.

Our banking team members strive to deliver unparalleled personal attention and genuine concern for the financial welfare and security of customers. We have a commitment to them and the communities we serve.

LETTER FROM CEO:

Our results in 2012 extend the progress that we reported for 2011. Our customer initiatives, in both our commercial and retail businesses, are beginning to overcome the loss of earning assets we experienced as a result of our aggressive work to resolve problem assets.

An important part of our turnaround has been our effort toward revitalizing our retail business. Consequently, in 2013 we will be relocating our bank branches in Wauwatosa, Wisconsin and Indianapolis, Indiana to more modern and visible locations nearby. We have also decided to close our Sidney, Illinois branch bank and serve our clients from the community at our Urbana, Illinois location. These changes will all be completed prior to the close of the second quarter of 2013. During the year we will also work to enhance our electronic banking services with the introduction of new mobile banking capabilities that will serve both our corporate and retail clients. We will also continue our focus on a steady improvement in our residential mortgage business, both in first and second mortgages. Our lending in this category has significantly eclipsed the volumes of business we were able to develop in each of the past several years and we are excited to see what the future holds

Our commercial business is also seeing improvement. Although we experienced reductions in loan balances over the course of 2012, our bankers have been actively developing business. They have been well received in the marketplace and our pipeline for new business in this category is significantly more robust than at year-end 2011. Just as importantly, we are clearly changing the mix of business that we serve and now have a heavier emphasis on commercial and industrial business and significantly less on real estate development and non-owner-occupied real estate.

In terms of serving our clients, over the past 18 months our company has summarized its approach by the words, "Service, Solutions and Integrity". I routinely observe examples of these attributes, because the words accurately describe the characteristics of our employees. In other words, they are not a slogan, but genuinely reflect the manner in which our people conduct business every day. Importantly, we see employees across all areas of the company step up to the need to serve our clients, whether this is face-to-face interaction with our bankers or through our staff who support these activities in our "back-office". It is this kind of commitment that has enabled us to report an annual profit after several years of losses.

Now our focus is on the future and sustaining our performance in the years ahead. In addition to prudently growing our core businesses, we must look to expand our product offerings and business lines in order to return the company to high-performing status. This is particularly critical given the outlook for the economy, monetary policy's impact on interest rates and the increased regulatory burdens banks are facing.

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

RETAIL BANKING SERVICES

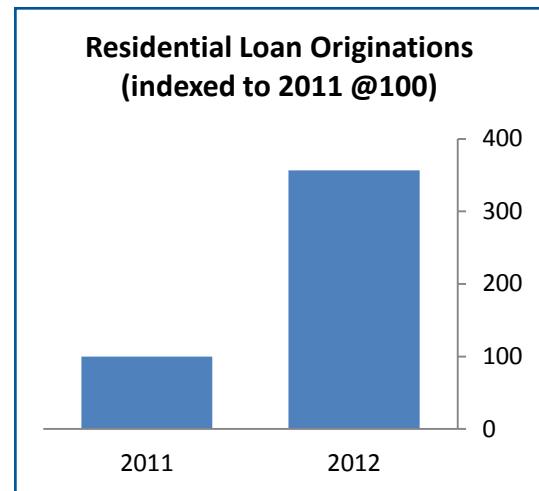
The philosophy in our retail banking offices at CIBM Bank mirrors the mission of our company as we strive to deliver personalized services and customized solutions to fulfill our clients' financial needs. Our consumer banking options include checking, eStatements and online banking with bill pay. Every member of our organization is committed to serving our clients, individually, with the utmost professionalism.

In 2012 our retail banking team focused upon growing our core business as well as strengthening the delivery of products and services to our clients.

Key initiatives:

- Our new primary checking relationships grew by 6% over the previous year as we increased our marketing efforts to our current clients and our markets at large. Primary household checking (DDA) relationships are vital to building our retail base. These primary DDA relationships grew more than \$7.2 million, a 14% increase above prior year.
- Continuing our commitment to deliver the highest levels of service, we increased our focus on retaining seasoned employees by upgrading our training department, which included hiring a full time trainer. This allows us to be more consistent as we train across the organization and improve overall communication.
- We were pleased to meet the needs of many homeowners by helping them benefit from attractive mortgage rates. Overall, our banking company achieved an outstanding year in generating portfolio first mortgage loans as well as exceeding our lending goal for second mortgages.
- Paperless eStatements were made available beginning in the 4th quarter. More than 40% of our online banking clients enrolled to take advantage of this convenience.

This next year is another important one in Retail Banking as we continue to grow our business and rollout new initiatives to improve and enhance our product set.

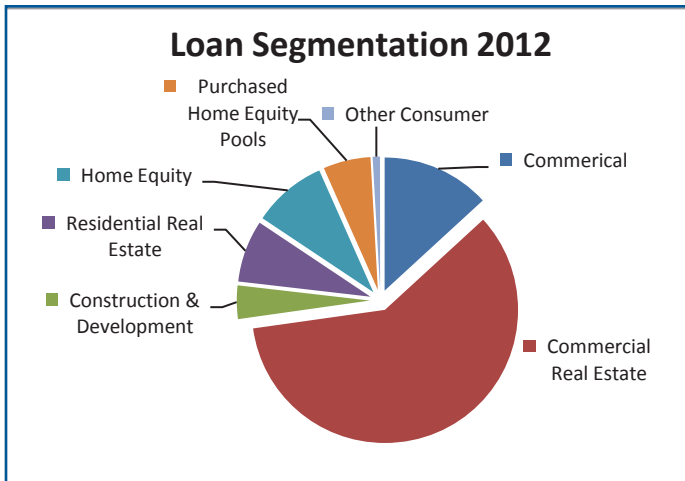


Key initiatives for 2013:

- After gathering in-depth market assessments and client census information in Wisconsin and Indianapolis we will be relocating two banking offices. These new locations are adjacent to retail space, offering opportunities to grow both our retail and corporate banking footprints.
- In our effort to continuously increase service levels for our clients, we will roll out mobile banking in June.
- We plan to launch a debit card rewards program in May, to bring greater value to clients in association with their debit card purchases at eligible businesses.
- Training of our retail associates remains at the top of our priority list in order to maintain consistency and excellence in both service and sales.
- Supporting local communities is key to achieving our overall mission. Our employees will be encouraged to continue their volunteerism and assist in communitywide activities, sponsorships and foundations.

Our team is energized by our sales and service focus as well as the introduction of new products. They are poised to achieve our goals in the coming year.

SERVICE MARKETS



CORPORATE BANKING SERVICES

At CIBM Bank, we pride ourselves on our commitment to “relationship banking” – a term used too often but not always carried out. Even with the many changes in the economy and in the financial services industry, relationship banking has never disappeared from CIBM Bank.

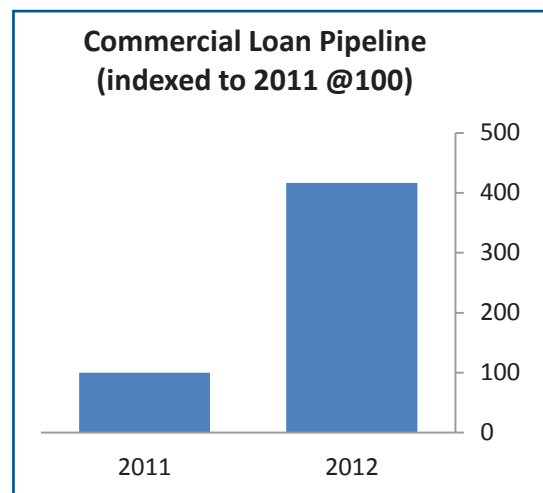
We’ve found success because our corporate bankers get to know business owners and listen to their concerns and plans. Then, we identify the best financial products and services to meet and exceed unique needs. We take the time to understand particular situations and give prompt, honest answers to prospects and clients alike.

Key initiatives:

- We added corporate bankers in Indianapolis, Champaign and metropolitan Milwaukee because we recognized the potential to develop and serve additional clients.
- We focused on increasing relationships in all markets emphasizing new commercial and industrial lending and offering customized treasury management solutions.
- By continuing to broaden our calling efforts, we made significant improvements in the diversification of our loan portfolio across industry and client concentrations.
- Enhancing our sales and service skills was achieved by initiating a comprehensive, professional sales training program for our corporate bankers.



Our corporate bankers share common attributes: professionalism, integrity, solid business acumen, banking knowledge, and dedication to a team approach in serving our clients. This encompasses all aspects of our company. We feel we have a competitive advantage because of our internal partnerships and our process of incorporating strong, disciplined underwriting standards with the delivery capability and speed of a nimble community bank.



The pipeline represents business lending opportunities under evaluation or approved but not yet closed. An increase in pipeline activity may not result in increased portfolio loan balances due to factors including but not limited to loan approval rates for the pipeline and repayments of loans in the portfolio. For additional information, please see our published financial reports for year-end 2012 and first quarter 2013.

Key initiatives for 2013:

- We're committed to increasing commercial lending relationships while balancing diversity in our loan portfolio.
- We'll continue developing strategies in tandem with our Treasury Management team to help our clients achieve results.
- Our bankers will assist clients by offering access to our solid business network across all markets, providing them with opportunities to gain referrals.

Our Corporate Banking team is prepared to help clients navigate the ebbs and flows presented by an uncertain economy.

TREASURY MANAGEMENT

Our treasury management experts at CIBM Bank worked closely with all business clients, as well as corporate and retail bankers, to assess then recommend solutions to help business owners achieve their best results in management and use of their money.

In 2012 the Treasury Management team brought forward new products and initiatives to drive positive results for clients and our banking company.

Key initiatives:

- We researched and introduced a new payroll card product for businesses and their employees.
- We made great strides in our project to increase convenience for online banking users through one single sign-on access to banking accounts.
- Worked with areas of the bank to review and recommend a new industry partner for international wire processing, providing greater client responsiveness.
- To enhance client interactions and streamline delivery, we began testing the utilization of tablets and e-signature technology.

In 2013 we plan to continue our efforts related to client delivery, including mobile banking, e-signature and other technology advances. We will also continue to monitor new products, regulations and capabilities across the industry then prioritize our delivery based on client needs.

INFORMATION TECHNOLOGY

At CIBM Bank the Information Technology (IT) Department strives to make computing as efficient and safe as possible for both our clients and employees. This includes the integration of new technologies and procedures.

Early in 2012, in conjunction with other areas across our company, IT evaluated various technologies and initiatives then prioritized these in a plan for the current year and beyond.

Key Initiatives:

- Contributed as part of the team executing eStatement rollout.
- Led research and testing related to mobile banking to ensure solid rollout in 2013.
- Began working with internal departments to assess utilization of electronic signatures. First test area: treasury management.
- Implemented improvements to the company-wide telephone system.
- Continued working with business units processes to improve workflow and efficiency.

A constant priority is educating clients and staff about key security protection measures related to their personal and business account information.

COMMUNITY

CIBM Bank is committed to making a positive impact in our communities as well as strengthening them through comprehensive banking solutions, investments, charitable giving and volunteerism. We believe that volunteerism and philanthropy enhance quality of life and strengthen communities.

We are proud of our charitable contributions and encouraged by the volunteerism of our colleagues at every level of the corporation.

Key Initiatives:

- We continued our commitment by sponsoring local events and organizations throughout the year.
- Provided educational opportunities and funding in the communities we serve.
- Endorsed many CIBM Bank employees fundraising activities, benefitting several charitable organizations.
- By utilizing our employee and financial resources we contributed to many local organizations, funding social welfare, Scouting, the arts and more.

At CIBM Bank, meeting the goals and aspirations of our clients, employees and communities is both a daily focus and a winning combination.

FINANCIALS

	At or for the Years Ended December 31,				
	2012	2011	2010	2009	2008
	Unaudited - Dollars in thousands, except share and per share data				
Selected Statements of Operations Data					
Interest and dividend income	\$ 21,404	\$ 25,680	\$ 30,290	\$ 39,409	\$ 56,111
Interest expense	3,218	5,469	9,269	23,926	34,501
Net interest income	18,186	20,211	21,021	15,483	21,610
Provision for (reversal of) loan losses	(3,213)	6,381	15,345	27,373	22,063
Net interest income (loss) after provision for (reversal of) loan losses	21,399	13,830	5,676	(11,890)	(453)
Non-interest income (1)	732	1,664	1,069	1,500	4,396
Non-interest expense	20,714	21,699	23,998	30,994	39,856
Income (loss) from continuing operations before income taxes	1,417	(6,205)	(17,253)	(41,384)	(35,913)
Income tax expense	50	—	—	99	320
Net income (loss) from continuing operations	1,367	(6,205)	(17,253)	(41,483)	(36,233)
Net income from discontinued operations	—	781	—	711	1,834
Extraordinary gain on extinguishment of junior subordinated debentures, net of amortization and reorganization costs	—	—	—	54,497	—
Net income (loss)	\$ 1,367	\$ (5,424)	\$ (17,253)	\$ 13,725	\$ (34,399)
Common Share Data					
Basic (earnings) loss from continuing operations	\$ 0.08	\$ (0.34)	\$ (0.95)	\$ (2.28)	\$ (1.98)
Diluted (earnings) loss from continuing operations	0.04	(0.34)	(0.95)	(2.28)	(1.98)
Basic net income (loss)	0.08	(0.30)	(0.95)	0.75	(1.88)
Diluted net income (loss)	0.04	(0.30)	(0.95)	0.75	(1.88)
Dividends	—	—	—	—	—
Book value per share	0.42	0.23	0.48	1.36	0.81
Weighted average shares outstanding-basic	18,127,892	18,127,892	18,127,892	18,217,608	18,333,779
Weighted average shares outstanding-diluted	35,631,892	18,127,892	18,127,892	18,313,520	18,333,779
Financial Condition Data					
Total assets excluding assets of company held for disposal	\$ 475,129	\$ 503,976	\$ 587,943	\$ 708,686	\$ 905,408
Loans	318,503	357,632	415,778	470,668	555,207
Allowance for loan losses	(11,378)	(16,128)	(14,645)	(16,240)	(19,242)
Investment securities	89,753	89,009	126,878	182,971	280,452
Deposits	394,684	422,586	493,527	589,450	694,632
Borrowings, including junior subordinated debentures	10,414	14,784	22,761	30,572	151,663
Stockholders' equity	67,629	64,222	68,753	84,695	14,802
Performance Ratios					
Net interest margin (2)	3.80%	3.80%	3.27%	1.92%	2.21%
Non-interest income (loss) to average assets (3)	(0.01)	0.30	0.14	0.12	0.44
Non-interest expense to average assets	4.22	3.94	3.62	3.77	3.97
Efficiency ratio (4)	114.16	99.20	109.40	188.62	153.26
Earnings (loss) from continuing operations on average assets	0.28	(1.13)	(2.60)	(5.04)	(3.61)
Asset Quality Ratios					
Non-accrual loans to total loans (5)	2.80%	5.48%	8.04%	10.80%	2.71%
Non-accrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (5)	5.55	8.47	9.37	10.97	2.90
Non-performing assets, restructured loans and loans 90 days or more past due and still accruing to total asset (5)	5.93	7.42	7.53	7.40	1.89
Allowance for loan losses to total loans	3.57	4.51	3.52	3.45	3.47
Net charge-offs to average loans	0.46	1.28	3.90	5.82	3.90
Regulatory Capital Ratios					
Total risk-based capital ratio	19.34	16.93	15.47	16.51	10.04
Tier 1 risk-based capital ratio	18.07	15.64	14.20	15.24	5.02
Leverage capital ratio	14.39	13.15	11.80	12.08	3.58
Other Data					
Number of employees (full-time equivalent)	137	137	145	165	197
Number of banking facilities	12	13	15	17	18

(1) Non-interest income from continuing operations includes pretax gains on investment securities of \$0.8, \$0.2 million and \$0.6 million for the years ended December 31, 2012, 2010 and 2009, respectively. There were no pretax gains on investment securities in 2011 and 2008.

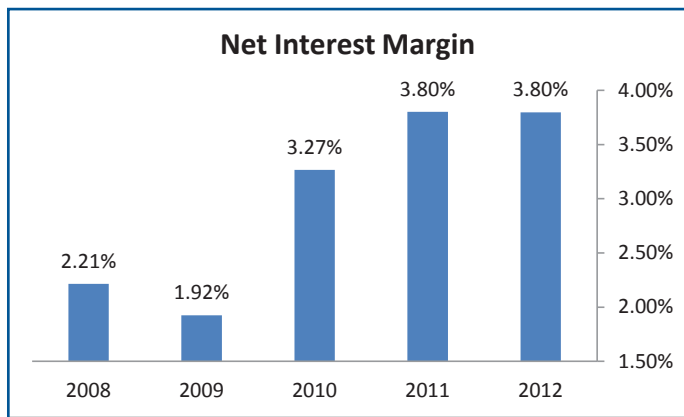
(2) Net interest margin is the ratio of net interest income to average interest-earning assets.

(3) Non-interest income to average assets excludes gains and losses on securities.

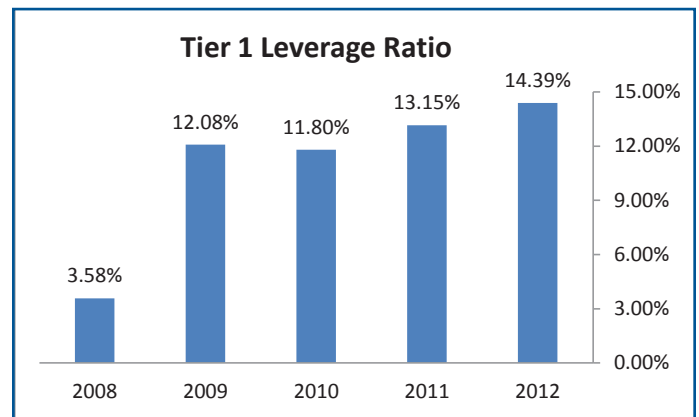
(4) The efficiency ratio is Non-interest expense divided by the sum of net interest income plus Non-interest income, excluding gains and losses on securities.

(5) Excludes loans held for sale from Non-accrual loans, Non-performing assets and 90 days or more past due and still accruing.

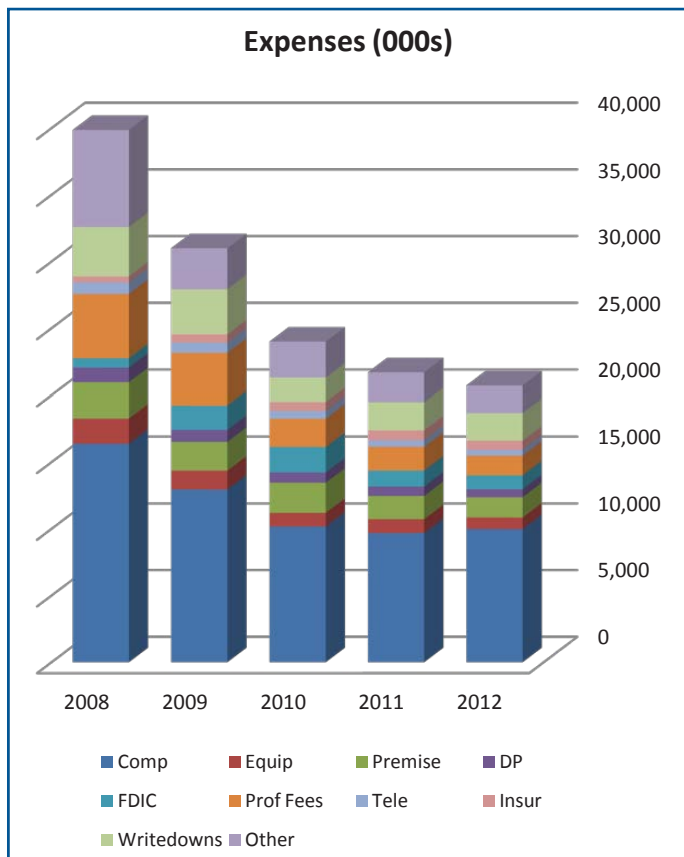
SELECTED FINANCIAL HIGHLIGHTS



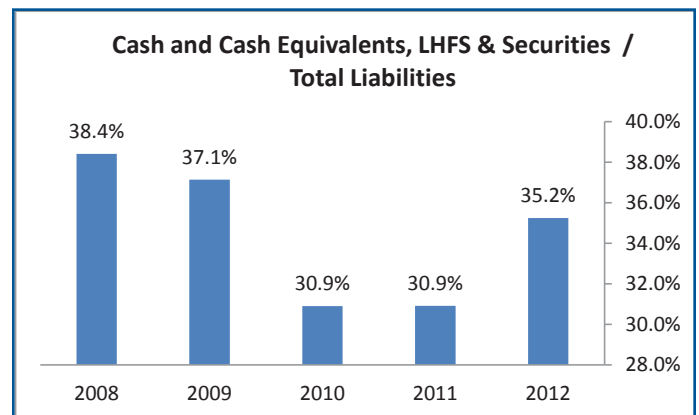
Net interest margins benefited from the 2009 reorganization, reduced non-performing assets and improved liability costs.



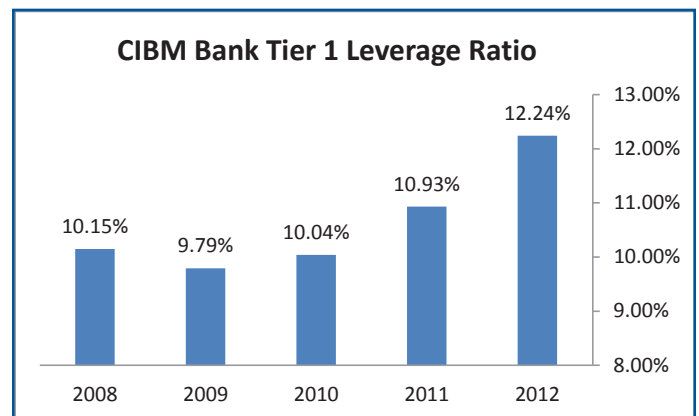
With improved net income (loss) performance and a smaller balance sheet the capital ratios have improved.



Controlling expenses continues to be a key component of improved profitability.

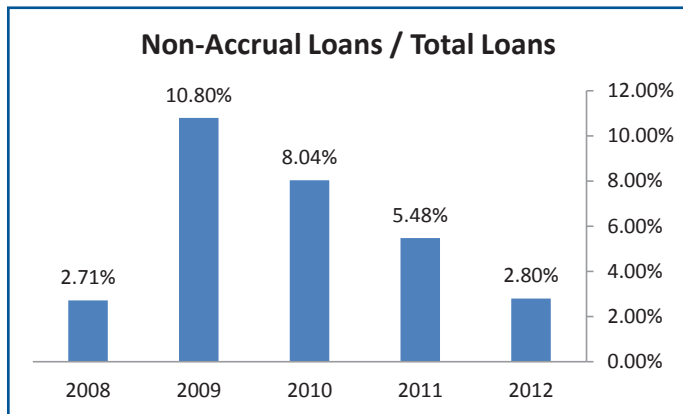


On-balance sheet liquidity resources continues to be at elevated levels, buttressing the balance sheet for enhanced durability and strength.

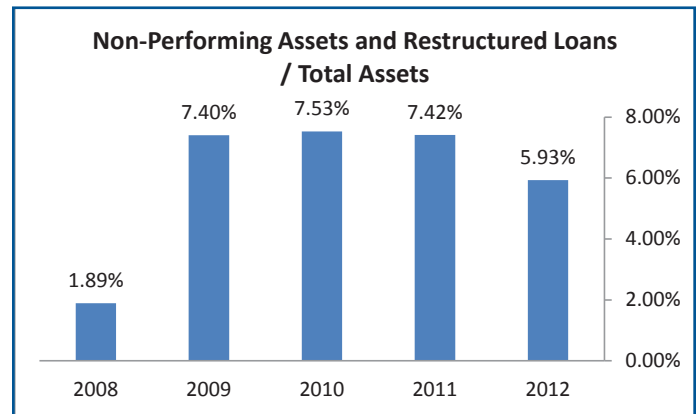


The Tier 1 Leverage Ratio at CIBM Bank has increased to a level well above 'well capitalized' levels of 10% and above our other regulatory requirements of 10% at the end of 2012. The regulatory requirements were reduced to 8% by the federal and state regulators in March of 2013 further enhancing the capital cushion of the CIBM Bank

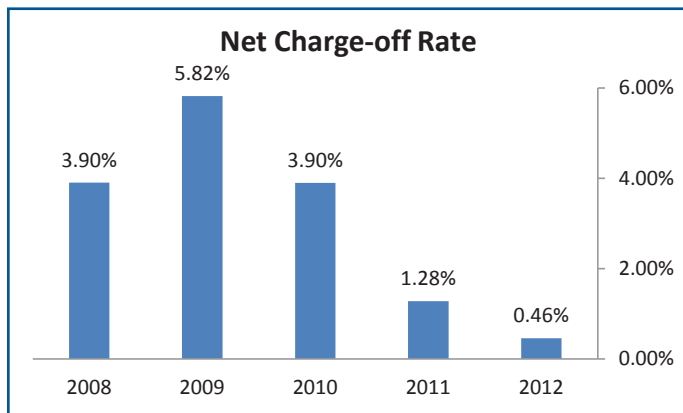
ASSET QUALITY



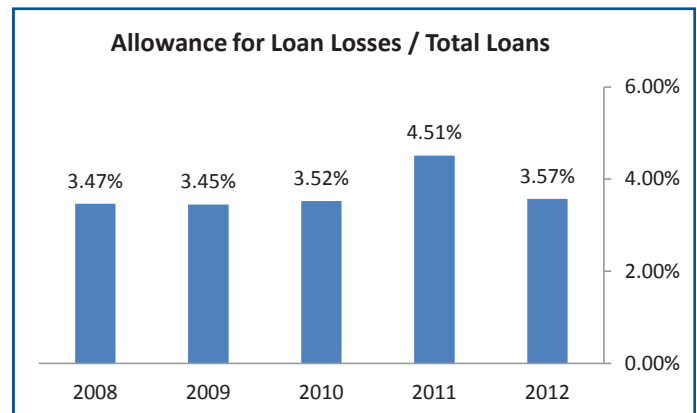
Non-accrual loan decreases show solid progress in improving this important asset quality measure.



Non-performing loans includes non-accrual loans plus real estate owned. Some non-accrual loan resolutions involve the company taking ownership of the property in satisfaction of the debt. We continue to make progress in this broad measure of asset quality and are striving for more.



Net losses in our loan portfolio are measured as net charge-offs - charge-offs minus recoveries. In 2012 we experienced several significant recoveries of previous charge-offs that resulted in reduced net loss rates for the year.



As shown by the previous graphs, the health of our loan portfolio continues to improve. However, we have some concerns about the fragility of the economic recovery, and several segments of the commercial real estate market have not recovered yet and are still weak. As a result, we maintained a strong loan loss reserve level at 3.57% of total loans.

In conclusion, we are pleased with the progress made in 2012, and expect continued progress in 2013.

FORWARD-LOOKING STATEMENTS

CIB Marine has made statements in this document that constitute "forward-looking statements" within the meaning to 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 document 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.

CORPORATE INFORMATION

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Service | Solutions | Integrity