



February 14, 2019

Dear Shareholder,

CIB Marine Bancshares, Inc. ("CIB Marine" or the "Company") is pleased to report its financial results for the year ended December 31, 2018.

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

Income before taxes for the fourth quarter of 2018, was \$1.3 million, compared to \$1.2 million for the same period of 2017, and \$4.5 million for the year ended December 31, 2018, compared to \$4.3 million for the same period of 2017.

Highlights for 2018 include:

- CIB Marine's revenues were up for the year 2018 versus 2017 with net interest income up \$0.4 million due to higher loan portfolio and SBA repurchase agreement balances, and non-interest income is up \$0.7 million due primarily to a \$7 million increase in SBA 7(a) loans originated for sale in 2018 versus 2017. In addition, due primarily to a significant recovery of a previously charged-off loan, CIB Marine recorded a reversal of loan losses of \$1.2 million in 2018 compared to a provision of \$0.2 million in 2017. These improvements were offset in part by \$2.2 million in higher expenses, the result of a \$1.3 million increase in compensation and employee benefits and a \$0.5 million increase in professional fees that were the result of legal, tax, accounting, and other services related to the repurchase of preferred stock.
- Income before taxes for subsidiary CIBM Bank was \$1.5 million for the quarter compared to \$1.6 million for the same period in 2017, and \$5.7 million for the year, compared to \$5.2 million for the same period in 2017. During 2018, CIBM Bank saw improved business activity across its portfolio lending and SBA loan originations, a 2.5% decline in mortgage loan production, and pressure on our cost of funds. The difference between CIBM Bank's results and the consolidated results reflects, in part, the \$0.5 million in preferred stock repurchase related expenses at the parent company.

### **Financial Condition - Summary**

Total assets were up \$59 million from December 31, 2017, to December 31, 2018, reflecting a \$53 million increase in reverse repurchase agreements and an \$8 million increase in the loan portfolio.

Highlights of our financial condition as of December 31, 2018, include:

- CIB Marine's stated book value per share of common stock was \$2.45 at December 31, 2018, compared to \$2.04 at December 31, 2017. The tangible book value per share increased to \$2.82 from \$2.53 over the same time period. The increase primarily reflects net income after tax and \$1.8 million in transfers to additional paid in capital related to repurchases of preferred stock at a discount.
- Nonperforming assets, troubled debt restructures, and loans 90 days past due and accruing to total assets were 1.45% at December 31, 2018, compared to 1.11% at September 30, 2018, and 1.13% at December 31, 2017; mainly the result of a single commercial real estate loan that was placed on non-accrual in the fourth quarter of 2018.

Attached please find unaudited financial results for the year ended December 31, 2018, including selected financial information, a summary balance sheet, and a summary income statement.

We encourage you to visit our website, [www.cibmarine.com](http://www.cibmarine.com), for additional detailed financial results and a link to the quarterly reports we file with our regulators. We will continue to release our financial results on a quarterly basis on 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.

### **Preferred Stock Repurchase Activity to Date**

During 2018, the carry value of preferred stock declined \$11.6 million due to repurchases of preferred stock resulting in \$1.8 million being transferred to additional paid in capital through December 31, 2018, and an increase in the book value and tangible book value attributable to our common shareholders. For the year ended December 31, 2018, CIB Marine agreed to repurchase approximately 23% of the 60,000 preferred shares originally issued in 2009, with 8,743 preferred shares cash settled as of December 31, 2018, and 4,923 preferred shares to settle in 2019, subject to certain purchase conditions. The repurchases have been in proportionate amounts of Series A and Series B shares as originally issued and are the result of both the modified Dutch auction held earlier in 2018 and direct negotiations with individual shareholders. All purchases that settled prior to December 31, 2018, were paid with cash on hand and CIB Marine did not raise new capital or issue debt to fund them. A liability of \$3.5 million has been established for the repurchases of preferred shares due for settlement no later than December 1, 2019.

During January 2019, CIB Marine bid to repurchase 14,688.94 shares of Series A Preferred Stock and 1,155.6 shares of Series B Preferred Stock. The repurchase opportunity came about rapidly as a result of the liquidation of an investment trust (or Collateralized Debt Obligation) that has held the respective preferred shares of CIB Marine since 2009. CIB Marine's bid met the financial requirements for repurchase described in our prior communications with shareholders, however, CIB Marine was not the prevailing bidder.

There are two other Collateralized Debt Obligations that hold CIB Marine preferred stock that could also be subjected to a liquidation event in the future, something that CIB Marine has no control over. Such an occurrence, should it result in an Internal Revenue Code Section 382 ownership change, could significantly limit our ability to fully utilize our federal net operating loss carryforwards in the future.

CIB Marine plans to hold the second of three modified Dutch auctions for preferred shareholders during the first half of 2019, following a similar time line as in 2018. CIB Marine has previously laid out minimum criteria that it expects preferred stock repurchase opportunities to meet, including that results should be accretive to common shareholders and CIB Marine's tax assets should not be adversely impacted without compensating factors. Given our limited amount of cash on hand, the price CIB Marine is willing to pay to repurchase preferred stock will require significant discounting to our current carrying value in order to compensate for any possible dilutive effects of a capital raise, if needed to fund a repurchase, and any potential adverse consequences to our current \$21 million in deferred tax assets.

### **2019 Annual Shareholder Meeting**

We have scheduled our Annual Meeting of Shareholders for 1:00 pm on Thursday, April 25, 2019, in the Champaign, Illinois area. Additional information regarding the annual meeting, including the proxy statement and shareholder proxy card for voting, is forthcoming.

### **Concluding Comments**

CIB Marine's 2018 operating results reflected a number of different activities and factors, including: a \$7 million increase in SBA loan originations despite higher interest rates; higher compensation costs related to normal market-based salary increases, higher average FTE for the year, higher SBA related commissions, higher health insurance costs, and other benefits; \$0.5 million in expenses related to the repurchase of preferred stock; rising cost of funds due to deposit-based funding competition and a one percentage point increase in the federal funds target rate over the year; a \$56 million growth in balance of lower margined, lower risk SBA reverse repurchase agreements; and \$8 million net loan portfolio growth as a result of strong above-goal commercial loan portfolio originations offset in part of by significant collections in lower quality loans and higher prepayments of quality loans due in part to borrowers' strategic sales of real estate collateral as a result of rising valuations.

Some of the 2018 activities were investments designed to foster future growth or one-time events. Our focus remains on producing revenue growth and long-term value for our shareholders. We continue to invest in our Government Guaranteed Lending Division through the hiring of new originators; we currently have four originators with the potential for more in 2019. This division grew its total gains on sales of loans by \$0.6 million in 2018 and we expect continued growth in loan originations and revenues from this area in the future. Our biggest source of

revenue continues to be our ongoing net interest income and, although net interest income increased by \$0.4 million, our net interest margin declined from 3.11% in 2017 to 3.05% in 2018. Higher balances in lower margined SBA reverse repurchase agreements and short term non-rated commercial paper balances improved our net income, but it also lowered our net interest margin such that our adjusted net interest margin for the year would have been 3.22% if we did not have these balances and the related borrowings used to fund them. In addition, rising cost of funds – in particular, during the second half of 2018 – has further pressured our net interest margin. This area will receive considerable attention in 2019 as the Company takes steps to improve its deposit products and services as well as marketing activities in an attempt to reduce reliance on rate sensitive time deposits, the main source of our cost of funds increases and disparity with peers.

Finally, we successfully repurchased a considerable percentage of our preferred shares at prices that were accretive to common stock book and tangible book values. The \$1.8 million increase to common shareholders from the repurchases – although not reflected in our net income – has contributed nicely to the 20% increase in book value over 2018. These repurchases have given preferred shareholders liquidity opportunities while creating value for our continuing shareholders. We will continue to take a careful and patient approach to evaluating any potential future repurchases, being mindful of the risks to our deferred tax assets and attentive to the requirements we have laid out previously for shareholders.

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, execution, credit, market, security (including cyber), 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,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share and per share data)				
<b>Selected Statements of Operations Data</b>					
Interest and dividend income	\$26,203	\$23,527	\$20,949	\$18,530	\$18,162
Interest expense	6,422	4,126	2,997	2,377	2,137
Net interest income	19,781	19,401	17,952	16,153	16,025
Provision for (reversal of) loan losses	(1,185)	206	(548)	61	379
Net interest income after provision for (reversal of) loan losses	20,966	19,195	18,500	16,092	15,646
Noninterest income (1)	9,409	8,730	9,400	4,426	3,656
Noninterest expense	25,847	23,615	23,779	21,117	18,996
Income (loss) from continuing operations before income taxes	4,528	4,310	4,121	(599)	306
Income tax expense (benefit)	1,188	(22,644)	50	6	4
<b>Net income (loss)</b>	<b>3,340</b>	<b>26,954</b>	<b>4,071</b>	<b>(605)</b>	<b>302</b>
<b>Common Share Data</b>					
Basic net income (loss) (2)	0.28	1.49	0.22	(0.03)	0.02
Diluted net income (loss) (2)	0.15	0.74	0.11	(0.03)	0.01
Dividends	—	—	—	—	—
Tangible book value per share (3)	2.82	2.53	1.01	0.79	0.90
Book value per share (3)	2.45	2.04	0.53	0.31	0.42
Weighted average shares outstanding - basic	18,209,096	18,149,660	18,127,892	18,127,892	18,127,892
Weighted average shares outstanding - diluted	35,139,642	36,434,384	35,791,952	18,127,892	35,631,892
<b>Financial Condition Data</b>					
Total assets	\$721,259	\$662,394	\$653,559	\$571,233	\$501,918
Loans	491,337	483,611	483,518	445,050	387,293
Allowance for loan losses	(7,947)	(7,701)	(7,592)	(8,064)	(7,556)
Investment securities	121,281	114,801	112,072	94,702	88,877
Deposits	536,931	478,633	483,097	443,571	400,201
Borrowings	86,710	84,217	96,944	58,883	31,260
Stockholders' equity	91,035	97,066	69,523	65,586	67,533
<b>Financial Ratios and Other Data</b>					
Performance Ratios:					
Net interest margin (4)	3.05%	3.11%	3.01%	3.18%	3.44%
Net interest spread (5)	2.80	2.93	2.86	3.03	3.28
Noninterest income to average assets (6)	1.37	1.36	1.53	0.84	0.74
Noninterest expense to average assets	3.75	3.67	3.88	4.02	3.93
Efficiency ratio (7)	88.44	83.95	86.94	102.68	96.96
Earnings (loss) on average assets (8)	0.48	4.19	0.66	(0.12)	0.06
Earnings (loss) on average equity (9)	3.52	36.85	5.88	(0.89)	0.45
Asset Quality Ratios:					
Nonaccrual loans to total loans (10)	1.34%	0.69%	1.26%	0.70%	1.16%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (10)	1.62	1.02	1.60	1.96	2.42
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total asset (10)	1.45	1.13	1.67	2.25	2.94
Allowance for loan losses to total loans	1.62	1.59	1.57	1.81	1.95
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (10)	99.72	156.68	97.99	92.25	80.64
Net charge-offs (recoveries) to average loans	(0.29)	0.02	(0.02)	(0.11)	0.31
Capital Ratios:					
Total equity to total assets	12.62%	14.65%	10.64%	11.48%	13.45%
Total risk-based capital ratio	15.34	16.62	15.40	15.45	17.21
Tier 1 risk-based capital ratio	14.09	15.36	14.15	14.20	15.95
Leverage capital ratio	10.10	12.39	11.14	12.27	13.50
Other Data:					
Number of employees (full-time equivalent)	183	183	171	173	154
Number of banking facilities	11	11	11	11	10

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

(2) Net income available to common stockholders in the calculation of earnings per share includes the difference between the carrying amount less the consideration paid for redeemed preferred stock. This difference was \$1.8 million for the year ended December 31, 2018.

(3) 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. Both book value measures are reported inclusive of the net deferred tax assets.

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

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

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

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

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

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

(10) Excludes loans held for sale.

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>(Dollars in thousands)</b>	
<b>Assets</b>		
Cash and due from banks	\$13,037	\$14,371
Reverse repurchase agreements	58,662	5,449
Securities available for sale	121,281	114,801
Loans held for sale	4,632	11,070
Net loans	483,390	475,910
Other assets	40,257	40,793
Total assets	<u>\$721,259</u>	<u>\$662,394</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	536,931	478,633
Short-term borrowings	86,710	84,217
Other liabilities	6,583	2,478
Total liabilities	<u>630,224</u>	<u>565,328</u>
<b>Stockholders' Equity</b>		
Total stockholders' equity	<u>91,035</u>	<u>97,066</u>
Total liabilities and stockholders' equity	<u>\$721,259</u>	<u>\$662,394</u>

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

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Dollars in thousands, except per share data)</b>	
Total interest income	26,203	23,527
Total interest expense	6,422	4,126
<b>Net interest income</b>	<u>19,781</u>	<u>19,401</u>
Provision for (reversal of) loan losses	(1,185)	206
<b>Net interest income after provision for (reversal of) loan losses</b>	<u>20,966</u>	<u>19,195</u>
<b>Noninterest income</b>	9,409	8,730
Compensation and employee benefits	17,458	16,152
Equipment, occupancy and premises	3,003	2,808
Other expense	5,386	4,655
<b>Total noninterest expense</b>	<u>25,847</u>	<u>23,615</u>
<b>Income from operations before income taxes</b>	<u>4,528</u>	<u>4,310</u>
Income tax expense (benefit)	1,188	(22,644)
<b>Net income</b>	<u>3,340</u>	<u>26,954</u>
Preferred stock dividends	—	—
Discount from repurchase of preferred stock	1,808	—
<b>Net income allocated to common stockholders</b>	<u>\$5,148</u>	<u>\$26,954</u>