



February 15, 2018

Dear Shareholder,

CIB Marine Bancshares, Inc. (“CIB Marine” or the “Company”) is pleased to report its financial results for the quarter and year ended December 31, 2017.

Result of Operations – Summary

Net income for the year ended December 31, 2017, was \$26.9 million or \$1.49 basic and \$0.74 diluted earnings per share, compared to \$4.1 million or \$0.22 basic and \$0.11 diluted earnings per share for the same period of 2016. The significant increase reflects primarily a \$22.6 million income tax benefit resulting from an adjustment to the valuation allowance of deferred tax assets. Pre-tax net income improved from \$4.1 million in 2016 to \$4.3 million in 2017 as a result of improved core banking activities.

Below are some highlights for the year 2017:

- CIB Marine was able to recover a significant portion of its deferred tax assets through a change in its valuation allowance at the end of 2017 net of the effect of the new tax law, resulting in a tax benefit of \$24.4 million. After reported tax expenses, the net tax benefit for 2017 was \$22.6 million. We refer you to our earnings release from January 31, 2018, and our audited financial statements on our website (www.cibmarine.com) for more detail about this significant entry.
- Pre-tax net income for subsidiary CIBM Bank was \$5.2 million for the year 2017, an increase of \$0.9 million from the year 2016. The results reflect improved core banking activities. Despite higher provisions for loan losses and lower gains on sale of OREO in 2017 versus 2016, CIBM Bank achieved improved revenues and lower expenses than the prior year.
- Revenues were higher in 2017 versus 2016, with net interest income increasing \$1.4 million, due to higher rate spreads and average earning asset volumes. Non-interest income also improved by \$0.4 million in 2017 versus 2016 after adjusting for a \$1.1 million difference in gain on sale of OREO between 2016 and 2017.
- Gains on sale of SBA 7(a) loans improved by \$1.0 million in 2017 versus 2016. This helped to offset lower net mortgage banking revenues of \$0.6 million due primarily to the increase in interest rates and corresponding reductions in mortgage refinance activity.

Financial Condition - Summary

Although CIB Marine continues to originate a significant volume of loans, the total loan balances did not change materially after pay-downs. Below are some highlights of our financial condition as of December 31, 2017:

- CIB Marine’s stated book value per share of common stock at December 31, 2017, was \$2.04 compared to \$0.53 at December 31, 2016. For those same dates, the tangible book value per share was \$2.53 and \$1.01, respectively. The increase reflects the adjustment in the net tax benefit recorded in 2017, but also the pre-tax net income of \$4.3 million.
- Nonperforming assets to total assets declined further to 1.13% from 1.67% at December 31, 2016; and the net charge-offs to average loans was relatively low again in 2017 at 0.02%. Although these are stronger high level metrics for the loan portfolio’s asset quality, there is always the risk of credit migration in the future.
- The Tier 1 leverage ratio for CIB Marine was 12.39% at December 31, 2017, up from 11.14% at December 31, 2016, reflecting the net tax benefits and earnings for the year.

Attached please find audited financial results for the year ended December 31, 2017, including selected financial information, a balance sheet, and an income statement.

We would encourage you to visit our website, www.cibmarine.com, for additional detailed financial results for both

“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

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. 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 to be added to our distribution list.

Special Meeting of Preferred Shareholders

We are continuing the efforts we started in 2017 to create liquidity opportunities for our preferred shareholders who seek them. A Special Meeting of preferred shareholders has been scheduled for March 14, 2018, to solicit a vote on amendments to our Articles of Incorporation that would give us the option to repurchase shares tendered in a voluntary process upon terms determined by the Board of Directors to be in the best interest of the Company and its shareholders. A copy of the proxy statement mailed to preferred shareholders is available on the “Additional Financial Information” section of our website. Provided we receive sufficient proxy participation, we anticipate announcing the results of the preferred shareholder vote and discussing the process for proceeding with a non-mandatory preferred stock repurchase plan at the Special Meeting.

If the Article amendments are approved by the preferred shareholders, the common shareholders will have the opportunity to ratify them at our Annual Shareholder Meeting. The common shareholders voted overwhelmingly in favor of a preferred stock repurchase amendment to the Articles last year, but will need to vote again this year due to some modifications to the repurchase plan incorporated into the previously approved amendment. Any repurchase of preferred shares will be on a voluntary basis and at the sole discretion of the Company’s Board of Directors after evaluation of the benefits of any such repurchase.

2018 Annual Shareholder Meeting

We have scheduled our Annual Meeting of Shareholders for 1:00pm on Thursday, April 26, 2018, in the Naperville, Illinois area. Additional information regarding the annual meeting, including the proxy statement and shareholder proxy card for voting, is forthcoming.

Concluding Comments

CIB Marine turned out another year of solid results in 2017. SBA lending started to gear up and generated positive results, our net interest income continued to grow despite flat loan growth, costs were contained, and overall earnings from our core banking activities were higher again.

The recent history of CIB Marine’s earnings and asset quality results and trends, as well as the outlooks for both, weighed in favorably amongst a body of evidence of positive and negative factors so that we were able to change our valuation allowance for our deferred tax assets. Our reported \$22.6 million deferred tax asset net of its valuation allowance represents the expected amount of future tax payments we will not have to make as a result of offsetting near and long term forecasted taxable income by our tax assets (i.e., net operating loss carryforwards and other tax assets).

In 2018 we will focus on adding additional staffing to support revenue growth in many of our markets and business divisions; technological asset investments designed to make banking with us easier for our clients and to support efficient operations; and maintenance and upgrades to a variety of our banking locations.

We are ever watchful of economic conditions, both global and national, and the potential for changes that may impact our business operations. With the labor markets heating up and signs of inflation emerging, the Federal Reserve continues to telegraph rising short-term rates. Rising rates have been a net positive for the bank so far, but yield curves are generally getting flatter and the stock market is starting to experience some significant volatility – albeit from a fairly lofty altitude. With rates up, we expect mortgage refinance activity to be light again this year. We are making strides in our purchase money mortgage activity, but we can’t ignore the tight housing inventories either. Higher rates also make SBA lending a little more challenging, as most originations are variable rate loans. Current asset prices have risen significantly since the last recession and there is the potential for real estate and equity market disruptions, which can have an effect on our asset quality and origination volumes – especially in a market place for loans that seems to be increasingly less risk averse. On net, we look forward to continued economic growth supported by recent tax law changes and the potential for more deregulation to support the development and growth in our operating results.

Based on trades reported on the OTCQB, CIB Marine common stock enjoyed significant appreciation in 2017 and is at or near a nine-year high. Our efforts to focus on revenue growth and efficiency improvements are paying off. We look forward to sharing our vision for the Company with our shareholders at the 2018 Annual Shareholder Meeting.

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, 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,				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except share and per share data)				
Selected Statements of Operations Data					
Interest and dividend income	\$23,527	\$20,949	\$18,530	\$18,162	\$17,710
Interest expense	4,126	2,997	2,377	2,137	2,470
Net interest income	19,401	17,952	16,153	16,025	15,240
Provision for (reversal of) loan losses	206	(548)	61	379	(22)
Net interest income after provision for (reversal of) loan losses	19,195	18,500	16,092	15,646	15,262
Noninterest income (1)	8,730	9,400	4,426	3,656	1,049
Noninterest expense	23,615	23,779	21,117	18,996	17,665
Income (loss) from continuing operations before income taxes	4,310	4,121	(599)	306	(1,354)
Income tax expense (benefit)	(22,644)	50	6	4	—
Net income (loss)	26,954	4,071	(605)	302	(1,354)
Common Share Data					
Basic net income (loss)	1.49	0.22	(0.03)	0.02	(0.07)
Diluted net income (loss)	0.74	0.11	(0.03)	0.01	(0.07)
Dividends	—	—	—	—	—
Tangible book value per share (2)	2.53	1.01	0.79	0.90	0.82
Book value per share (2)	2.04	0.53	0.31	0.42	0.34
Weighted average shares outstanding-basic	18,149,660	18,127,892	18,127,892	18,127,892	18,127,892
Weighted average shares outstanding-diluted	36,434,384	35,791,952	18,127,892	35,631,892	18,127,892
Financial Condition Data					
Total assets	\$662,394	\$653,559	\$571,233	\$501,918	\$460,153
Loans	483,611	483,518	445,050	387,293	341,332
Allowance for loan losses	(7,701)	(7,592)	(8,064)	(7,556)	(8,308)
Investment securities	114,801	112,072	94,702	88,877	90,731
Deposits	478,633	483,097	443,571	400,201	387,901
Borrowings	84,217	96,944	58,883	31,260	4,348
Stockholders' equity	97,066	69,523	65,586	67,533	66,195
Financial Ratios and Other Data					
Performance Ratios:					
Net interest margin (3)	3.11%	3.01%	3.18%	3.44%	3.46%
Net interest spread (4)	2.93	2.86	3.03	3.28	3.29
Noninterest income to average assets (5)	1.36	1.53	0.84	0.74	0.23
Noninterest expense to average assets	3.67	3.88	4.02	3.93	3.84
Efficiency ratio (6)	83.95	86.94	102.68	96.96	108.46
Earnings (loss) on average assets (7)	4.19	0.66	(0.12)	0.06	(0.29)
Earnings (loss) on average equity (8)	36.85	5.88	(0.89)	0.45	(2.03)
Asset Quality Ratios:					
Nonaccrual loans to total loans (9)	0.69%	1.26%	0.70%	1.16%	1.06%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (9)	1.02	1.60	1.96	2.42	3.20
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total asset (9)	1.13	1.67	2.25	2.94	4.48
Allowance for loan losses to total loans	1.59	1.57	1.81	1.95	2.43
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (9)	156.68	97.99	92.25	80.64	76.02
Net charge-offs (recoveries) to average loans	0.02	(0.02)	(0.11)	0.31	0.95
Capital Ratios:					
Total equity to total assets	14.65%	10.64%	11.48%	13.45%	14.39%
Total risk-based capital ratio	16.63	15.40	15.45	17.21	18.05
Tier 1 risk-based capital ratio	15.36	14.15	14.20	15.95	16.79
Leverage capital ratio	12.39	11.14	12.27	13.50	14.89
Other Data:					
Number of employees (full-time equivalent)	183	171	173	154	154
Number of banking facilities	11	11	11	10	10

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

(2) 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.

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

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

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

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

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

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

(9) Excludes loans held for sale.

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

	At December 31,	
	2017	2016
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$14,371	\$10,291
Reverse repurchase agreements	5,449	24,275
Securities available for sale	114,801	112,072
Loans held for sale	11,070	11,469
Loans	483,611	483,518
Allowance for loan losses	(7,701)	(7,592)
Net loans	475,910	475,926
Federal Home Loan Bank stock	3,083	3,803
Premises and equipment, net	4,334	4,427
Accrued interest receivable	1,558	1,382
Deferred tax assets, net	22,613	—
Other real estate owned, net	2,584	3,159
Bank owned life insurance	4,494	4,389
Goodwill and other intangible assets, net	198	221
Other assets	1,929	2,145
Total assets	\$662,394	\$653,559
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	\$70,024	\$77,154
Interest-bearing demand	32,979	33,832
Savings	182,581	176,435
Time	193,049	195,676
Total deposits	478,633	483,097
Short-term borrowings	84,217	96,944
Accrued interest payable	383	349
Other liabilities	2,095	3,646
Total liabilities	565,328	584,036
Stockholders' Equity		
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; 18,383,891 issued shares; 18,172,844 outstanding shares	18,384	18,346
Capital surplus	158,672	158,552
Accumulated deficit	(128,563)	(155,517)
Accumulated other comprehensive loss, net	(1,893)	(2,329)
Treasury stock 221,902 shares at cost	(534)	(529)
Total stockholders' equity	97,066	69,523
Total liabilities and stockholders' equity	\$662,394	\$653,559

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

	Years Ended December 31,	
	2017	2016
	(Dollars in thousands, except per share data)	
Interest Income		
Loans	\$20,395	\$18,240
Loans held for sale	331	472
Securities	2,492	2,071
Other investments	309	166
Total interest income	23,527	20,949
Interest Expense		
Deposits	3,347	2,753
Short-term borrowings	779	244
Total interest expense	4,126	2,997
Net interest income	19,401	17,952
Provision for (reversal of) loan losses	206	(548)
Net interest income after provision for (reversal of) loan losses	19,195	18,500
Noninterest Income		
Deposit service charges	500	470
Other service fees	181	211
Mortgage banking revenue, net	6,497	7,137
Other income	580	555
Net gains on sale of securities	—	—
Net gains on sale of assets and (write downs)	972	1,027
Total noninterest income	8,730	9,400
Noninterest Expense		
Compensation and employee benefits	16,152	16,421
Equipment	1,238	1,148
Occupancy and premises	1,570	1,591
Data processing	587	613
Federal deposit insurance	247	409
Professional services	818	775
Telephone and data communication	346	390
Insurance	277	230
Other expense	2,380	2,202
Total noninterest expense	23,615	23,779
Income from operations before income taxes	4,310	4,121
Income tax expense (benefit)	(22,644)	50
Net income	26,954	4,071
Preferred stock dividends	—	—
Net income allocated to common stockholders	\$26,954	\$4,071