



August 6, 2020

Dear Shareholder,

CIB Marine Bancshares, Inc. (“CIB Marine” or the “Company”) is pleased to report its financial results for the quarter and six months ended June 30, 2020.

Result of Operations – Summary

Net income for the second quarter of 2020, was \$1.7 million or \$0.09 basic and \$0.05 diluted earnings per share, compared to \$0.8 million or \$0.04 basic and \$0.02 diluted earnings per share for the same period of 2019; and \$2.5 million for the six months ended June 30, 2020, compared to \$1.4 million for the same period of 2019. A few highlights for the quarter include:

- CIBM Bank’s mortgage banking division originated over \$200 million in residential loans during the first half of the year, creating \$6.2 million in net mortgage banking revenues year to date. Both amounts are the highest for the division and the increase was fueled primarily by lower interest rates. Net interest income was up \$0.6 million for the six months ended June 30, 2020, versus the same period of 2019, primarily the result of a 53 basis point decline in CIBM Bank’s cost of funds due to repricing of maturing time deposits and money market promotions in a lower rate environment and \$43 million of originations and balances in government guaranteed Paycheck Protection Program (PPP) loans.
- CIBM Bank has received \$1.5 million in fees paid by the SBA for the origination of the PPP loans. These fees will be accreted, net of costs, into interest income over the life of the loan and accelerated with any government paid loan forgiveness or prepayment. The weighted average life of the PPP loans was 24 months at origination and 22 months at June 30, 2020.
- The provision for loan losses was up \$0.7 million during the six months ended June 30, 2020, versus the same period of 2019. The increase was primarily the result of environmental and qualitative factors related to the impact COVID-19 has had on current economic conditions. We continue to expect overall credit quality to decline in bank loan portfolios in the quarters ahead due to the severity of economic impact. We also believe CIBM Bank’s portfolio is in a stronger position now compared to the last recession as a result of favorable changes in composition, including fewer construction and development and purchased home equity loans, and more first lien residential loans.

Financial Condition - Summary

Total assets increased \$89 million to \$793 million as of June 30, 2020, from \$704 million at December 31, 2019. The increase was led by a \$67 million increase in residential loans held for sale and \$43 million in PPP loans. Funding for the new assets came primarily from increases in deposits and utilization of the Federal Reserve Bank of Chicago’s PPP Loan Facility at the rate of 0.35%. Additional highlights of our financial condition as of June 30, 2020, include:

- Tangible book value and stated book value per share of common stock were \$3.15 and \$2.80, respectively, compared to \$2.99 and \$2.64, respectively, at December 31, 2019. The increases were due primarily to \$2.5 million in net income and a \$1.4 million improvement in accumulated other comprehensive income.
- Non-performing assets, restructured loans, and loans 90 days or more past due and still accruing to total assets and nonaccrual loans to total loans were 1.02% and 0.92%, respectively, at June 30, 2020, down from 1.35% and 1.09%, respectively, at December 31, 2019, and down from 1.40% and 1.12%, respectively, at June 30, 2019. The improvements during the first half of 2020 were related to certain loan level improvements, although credit quality is expected to deteriorate in the foreseeable future due to the economic impact of COVID-19. As of June 30, 2020, approximately 87 loans totaling \$75 million are on a COVID-19 payment deferral, which is a short-term loan payment deferral for customers who were current with their loan payments prior to being directly impacted by COVID-19.

“Community Banking – The Way It Used To Be”

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We encourage you to visit our website, www.cibmarine.com, for a copy of our audited financial statements, 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 to be added to our distribution list.

Preferred Stock

We have recently completed the third and final modified Dutch auction required under the Second Amendment to CIB Marine's Articles of Incorporation. 27,261 shares of preferred stock were offered for repurchase with a weighted average price of \$898.05 per share. After a comprehensive review and careful consideration, CIB Marine repurchased 214 preferred shares for a total price of approximately \$148,000 – a \$33,000 discount to the carrying value of the preferred stock.

From 2018 through today's date, we have repurchased 27% of the 60,000 issued shares of preferred stock in the course of the modified Dutch auctions and negotiated repurchase transactions. The repurchased preferred stock includes 14,934 shares of Series A and 1,175 shares of convertible Series B – effectively terminating conversion rights equal to 4.7 million shares of common stock. The transactions provided liquidity of \$11.5 million to participating preferred shareholders at a \$2.1 million discount to the preferred stock carrying value, effectively accruing to common stock book value.

We have received a few questions asking why we didn't buy all of the tendered preferred shares. The short answer is: the Company was unwilling to engage in repurchases that were detrimental to the Company and our remaining stakeholders. To help illustrate the analysis process, consider the following if we had accepted all tendered preferred shares for repurchase in the most recent modified Dutch auction:

- A transaction of that size, at the weighted average price of \$898.05 per preferred share, would have necessitated a capital raise in a bank stock market that has seen significant declines during the pandemic. Such a capital raise through the sale of Company common stock would likely result in a significant reduction (more than \$1.00 per share) in the tangible book value of current shares of common stock due to a \$1.3 million premium for the preferred stock offered and, more significantly, a heavily discounted common stock issuance price in the current market. In addition, such a capital raise would have resulted in substantial ownership dilution of current common shareholders with the owners of newly issued common stock owning more than 50% of the Company.
- The Company considered a capital raise supplemented, in whole or part, with the issuance of subordinated debt to repurchase the tendered shares. This would cause several adverse consequences, including introducing a significant new interest expense and creating a substantial new debt servicing obligation. In addition, CIB Marine would not realize the tax benefits such structures provide to others, due to our current level of tax assets. Furthermore, the issuance of sub-debt would introduce new creditors with new rights where the current perpetual non-cumulative preferred shares have never paid dividends, have limited voting rights, and the Series B shares are convertible only in limited situations. As a result, we concluded the utilization of sub-debt for this transaction was not in the best interests of the Company or our stakeholders.
- The material risks and consequences to our deferred tax assets would further reduce the tangible book value of common stock and, arguably, the market value of both common and preferred stock. For instance, when an ownership change (as defined under tax law) occurs, there is a very severe negative impact on the value of tax assets when the long term federal tax exempt rate used to determine the limitations on the annual use of the tax assets becomes very low. In the current market, that rate has become historically low at nearly 1%, which effectively cuts in half the amount that could be used per annum if the rate were 2%.

Special Meeting of Preferred Shareholders

On August 5, 2020, CIB Marine held a special meeting of its preferred shareholders to consider a Fifth Amendment to our Articles of Incorporation, which would make permanent certain aspects of the now expired Second Amendment to our Articles of Incorporation and permit the Company to engage in negotiated voluntary repurchases of preferred stock. The Fifth Amendment was approved by our common shareholders at our Annual Shareholder Meeting in April 2020, with more than 95% of votes cast in favor

of the amendment. However, the preferred shareholders rejected the proposal, with 38% voting in favor and 62% voting against the proposed amendment. CIB Marine does not anticipate any preferred stock repurchases in the near future. There is no requirement to redeem any preferred stock as both classes are perpetual noncumulative preferred with no maturity date.

Reverse Split of Common Stock

At our Annual Shareholder meeting in April, our common shareholders approved a proposal to authorize the Board of Directors to effect a 1:15 reverse split of our common stock. After careful consideration, the Board has determined to move forward with the split and set an effective date of September 14, 2020. Shareholders who hold their shares directly with our transfer agent, Computershare, should expect to receive communications from Computershare regarding the mechanics of the split in the weeks following the effective date. Shareholders who hold their shares in street name should receive such communications from their brokers. A reverse stock split of 1:15 will reset the common stock's book value per share at a multiple of 15 higher than current, but does not, per se, change the total book or market value of an investor's stock holdings or the Company's market capitalization. It will, however, make the stock acceptable to a wider set of brokers, and be a precursor to upgrading the company's stock, CIBH, from the OTCQB to OTCQX market.

Concluding Comments

The first half of 2020 has been eventful to say the least. We are very pleased and proud of our employees in managing through many different challenges – from closing over \$200 million in residential loans year to date, to originating over 300 PPP loans in a matter of several weeks, to collaborating to devise a system to handle COVID-19 loan payment deferral requests, to coordinating and implementing significant new safety protocols for the protection of customers and employees during this COVID-19 pandemic so we can continue to support and serve our customers and local communities.

We wish you all health and safety during these challenging times.

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Dollars in thousands, except share and per share data)				
Selected Statements of Operations Data				
Interest and dividend income	\$6,669	\$7,078	\$13,305	\$14,093
Interest expense	1,343	2,256	3,032	4,434
Net interest income	5,326	4,822	10,273	9,659
Provision for (reversal of) loan losses	249	(67)	451	(225)
Net interest income after provision for (reversal of) loan losses	5,077	4,889	9,822	9,884
Noninterest income (1)	4,489	2,710	7,131	4,072
Noninterest expense	7,308	6,557	13,630	12,062
Income before income taxes	2,258	1,042	3,323	1,894
Income tax expense	575	281	856	510
Net income	\$1,683	\$761	2,467	1,384
Common Share Data				
Basic net income (2)	\$0.09	\$0.04	\$0.13	\$0.08
Diluted net income (2)	0.05	0.02	0.08	0.04
Dividends	—	—	—	—
Tangible book value per share (3)	3.15	2.97	3.15	2.97
Book value per share (3)	2.80	2.60	2.80	2.60
Weighted average shares outstanding-basic	18,992,550	18,290,674	18,858,299	18,261,584
Weighted average shares outstanding-diluted	32,402,984	33,083,324	32,330,877	32,950,273
Financial Condition Data				
Total assets	\$793,151	\$708,270	\$793,151	\$708,270
Loans	535,692	513,755	535,692	513,755
Allowance for loan losses	(8,483)	(7,251)	(8,483)	(7,251)
Investment securities	113,303	124,784	113,303	124,784
Deposits	566,811	535,367	566,811	535,367
Borrowings	120,233	69,174	120,233	69,174
Stockholders' equity	97,347	94,035	97,347	94,035
Financial Ratios and Other Data				
Performance Ratios:				
Net interest margin (4)	2.96%	2.89%	3.00%	2.91%
Net interest spread (5)	2.76	2.58	2.77	2.61
Noninterest income to average assets (6)	2.36	1.52	1.95	1.14
Noninterest expense to average assets	3.86	3.72	3.77	3.43
Efficiency ratio (7)	74.61	87.45	78.58	88.26
Earnings on average assets (8)	0.89	0.43	0.68	0.39
Earnings on average equity (9)	6.97	3.28	5.17	3.02
Asset Quality Ratios:				
Nonaccrual loans to total loans (10)	0.92%	1.12%	0.92%	1.12%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (10)	1.07	1.45	1.07	1.45
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total asset (10)	1.02	1.40	1.02	1.40
Allowance for loan losses to total loans	1.58	1.41	1.58	1.41
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (10)	147.79	97.34	147.79	97.34
Net charge-offs (recoveries) to average loans	(0.09)	0.44	(0.01)	0.19
Capital Ratios:				
Total equity to total assets	12.27%	13.28%	12.27%	13.28%
Total risk-based capital ratio	15.49	15.32	15.49	15.32
Tier 1 risk-based capital ratio	14.23	14.07	14.23	14.07
Leverage capital ratio	10.82	10.64	10.82	10.64
Other Data:				
Number of employees (full-time equivalent)	177	180	177	180
Number of banking facilities	11	11	11	11

- (1) Noninterest income includes gains and losses on securities.
- (2) Net income available to common stockholders in the calculation of earnings per share for the second quarter 2020 and the six months ended June 30, 2020, includes the difference between the carrying amount less the consideration paid for redeemed preferred stock of \$0.03 million.
- (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. As presented here, shares of common outstanding excludes unvested Restricted Stock Awards.
- (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 stockholders' equity.
- (10) Excludes loans held for sale.

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

	June 30, 2020	December 31, 2019
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$9,120	\$8,970
Reverse repurchase agreements	18,117	11,196
Securities available for sale	113,303	120,398
Loans held for sale	83,997	16,928
Net loans	527,209	505,698
Other assets	41,405	40,601
Total assets	\$793,151	\$703,791
Liabilities and Stockholders' Equity		
Deposits	566,811	530,190
Short-term borrowings	77,273	73,847
Long-term borrowings	42,960	—
Other liabilities	8,760	6,350
Total liabilities	695,804	610,387
Stockholders' Equity		
Total stockholders' equity	97,347	93,404
Total liabilities and stockholders' equity	\$793,151	\$703,791

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Interest income	6,669	7,078	13,305	14,093
Interest expense	1,343	2,256	3,032	4,434
Net interest income	5,326	4,822	10,273	9,659
Provision for (reversal of) loan losses	249	(67)	451	(225)
Net interest income after provision for (reversal of) loan losses	5,077	4,889	9,822	9,884
Noninterest income	4,489	2,710	7,131	4,072
Compensation and employee benefits	5,451	4,445	9,872	8,132
Occupancy and premises	786	790	1,609	1,581
Other expense	1,071	1,322	2,149	2,349
Total noninterest expense	7,308	6,557	13,630	12,062
Income from operations before income taxes	2,258	1,042	3,323	1,894
Income tax expense	575	281	856	510
Net income	1,683	761	2,467	1,384
Discount from repurchase of preferred shares	33	—	33	—
Net income allocated to common stockholders	\$1,716	\$761	\$2,500	\$1,384