



November 8, 2018

Dear Shareholder,

CIB Marine Bancshares, Inc. (“CIB Marine” or the “Company”) is pleased to report its financial results for the quarter and nine months ended September 30, 2018.

Result of Operations – Summary

Pre-tax income for the third quarter of 2018, was \$1.2 million, compared to \$1.2 million for the same period of 2017, and \$3.3 million for the nine months ended September 30, 2018, compared to \$3.1 million for the same period of 2017.

Highlights for the first nine months of 2018 include:

- CIB Marine’s net interest income is up \$0.5 million due to higher loan portfolio and SBA repurchase agreement balances and non-interest income is up \$1.1 million due to stronger mortgage and SBA loan originations sold to investors for the nine months ended September 30, 2018, compared to the same period of 2017.
- Pre-tax income for subsidiary CIBM Bank was \$1.7 million for the quarter compared to \$1.3 million for the same period in 2017, and \$4.2 million for the nine months ended September 30, 2018, compared to \$3.6 million for the same period in 2017. The Company saw improved business activity across all of our major lines of business. The difference between CIBM Bank results and the consolidated results reflects expenses at the parent company including those extra expenses in 2018 related to the repurchase of preferred shares of stock.

Financial Condition - Summary

Total assets were up \$61 million from December 31, 2017, to September 30, 2018, reflecting a \$40 million increase in reverse repurchase agreements and a \$24 million increase in the loan portfolio.

Highlights of our financial condition as of September 30, 2018, include:

- CIB Marine’s stated book value per share of common stock was \$2.34 at September 30, 2018, compared to \$2.04 at December 31, 2017. The tangible book value per share increased to \$2.71 from \$2.53 over the same time period. The increase reflects net income after tax and \$1.8 million in transfers to additional paid in capital related to repurchases of preferred stock.
- Nonperforming assets, troubled debt restructures, and loans 90 days past due and accruing to total assets were 1.11% at September 30, 2018, compared to 1.13% at December 31, 2017, and 1.49% at September 30, 2017; the result of decreased non-accrual loans and other real estate owned.

Attached please find unaudited financial results for the quarter ended September 30, 2018, including selected financial information, a summary balance sheet, and a summary income statement.

We encourage you to visit our website, 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 to be added to our distribution list.

Preferred Stock Repurchase Activity to Date

During 2018, the carry value of preferred stock has declined \$11.6 million due to repurchases of preferred stock resulting in \$1.8 million being transferred to additional paid in capital through September 30, 2018, and an increase in the book value and tangible book value attributable to our common shareholders. For the nine months ended September 30, 2018, CIB Marine agreed to repurchases of approximately 23% of the 60,000 preferred shares originally issued in 2009, with 15% cash settled as of September 30, 2018, and 8% to settle in the future, subject to certain purchase conditions. The repurchases have been in proportionate amounts of Series A and Series B shares

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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 September 30, 2018, were paid with cash on hand and the Company did not raise new capital or issue debt to fund the purchases. A liability of \$3.5 million has been established for the repurchases of preferred shares that have not yet settled.

Concluding Comments

CIBM Bank has shown solid growth year to date in net interest income as well as mortgage and SBA loan sales, despite the challenges that higher interest rates create for production. Loan balances are up \$24 million for the year and both SBA and residential loan production are up year to date following a solid third quarter.

Loan growth in banking has been relatively high in recent years resulting in increased competition for funding. As short term interest rates have risen, we have seen increased pressure on our funding costs. At the same time, our loan yields have risen as well and are up 32 basis points over the last 9 months ended September 30, 2018, compared to our interest bearing deposit costs being up 25 basis points over the same period. As a result, our net interest margin for the nine months ended September 30, 2018, is 3.10%, compared to 3.06% for the same period of 2017. In this past quarter, we had a welcome and significant increase in our high quality reverse repo average balances and, although it results in higher net interest income, its lower product net interest spread coupled with higher funding costs caused our overall net interest margin to slip in the third quarter of 2018.

Finally, we are pleased to report the significant progress the Company has made in repurchasing shares of Company issued preferred stock within the criteria established by the Board of Directors. We successfully repurchased a considerable percentage of the preferred shares at prices that were accretive to our book and tangible book values. The \$1.8 million gain to common shareholders from the repurchases - although not reflected in our income statement - has contributed nicely to the 14.7% increase in book value year to date. 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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except share and per share data)			
Selected Statements of Operations Data				
Interest and dividend income	\$6,798	\$6,056	\$19,194	\$17,350
Interest expense	1,767	1,140	4,358	3,005
Net interest income	5,031	4,916	14,836	14,345
Provision for loan losses	(13)	149	10	424
Net interest income after provision for loan losses	5,044	4,767	14,826	13,921
Noninterest income (1)	3,063	2,257	7,863	6,715
Noninterest expense	6,871	5,865	19,432	17,545
Income before income taxes	1,236	1,159	3,257	3,091
Income tax expense	345	25	875	45
Net income	\$891	\$1,134	\$2,382	\$3,046
Common Share Data				
Basic net income (2)	\$0.14	\$0.06	\$0.23	\$0.17
Diluted net income (2)	0.07	0.03	0.12	0.08
Dividends	—	—	—	—
Tangible book value per share (3)	2.71	1.23	2.71	1.23
Book value per share (3)	2.34	0.75	2.34	0.75
Financial Condition Data				
Total assets	\$723,733	\$640,340	\$723,733	\$640,340
Loans	507,677	490,089	507,677	490,089
Allowance for loan losses	(8,217)	(7,905)	(8,217)	(7,905)
Investment securities	118,345	112,670	118,345	112,670
Deposits	523,729	479,285	523,729	479,285
Borrowings	104,357	84,903	104,357	84,903
Stockholders' equity	88,993	73,556	88,993	73,556
Financial Ratios and Other Data				
Performance Ratios:				
Net interest margin (4)	2.97%	3.07%	3.10%	3.06%
Net interest spread (5)	2.72	2.88	2.87	2.89
Noninterest income to average assets (6)	1.72	1.37	1.56	1.39
Noninterest expense to average assets	3.82	3.55	3.82	3.64
Efficiency ratio (7)	84.63	81.76	85.38	83.31
Earnings on average assets (8)	0.50	0.69	0.47	0.63
Earnings on average equity (9)	3.77	6.11	3.30	5.65
Asset Quality Ratios:				
Nonaccrual loans to total loans (10)	0.73%	0.99%	0.73%	0.99%
Nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing to total loans (10)	1.09	1.30	1.09	1.30
Nonperforming assets, restructured loans and loans 90 days or more past due and still accruing to total asset (10)	1.11	1.49	1.11	1.49
Allowance for loan losses to total loans	1.62	1.61	1.62	1.61
Allowance for loan losses to nonaccrual loans, restructured loans and loans 90 days or more past due and still accruing (10)	148.99	124.21	148.99	124.21
Net charge-offs (recoveries) to average loans	(0.14)	(0.08)	(0.14)	0.03
Capital Ratios:				
Total equity to total assets	12.30%	11.49%	12.30%	11.49%
Total risk-based capital ratio	14.43	16.05	14.43	16.05
Tier 1 risk-based capital ratio	13.18	14.80	13.18	14.80
Leverage capital ratio	9.90	11.41	9.90	11.41
Other Data:				
Number of employees (full-time equivalent)	188	179	188	179
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 includes the difference between the carrying amount less the consideration paid for redeemed preferred stock. This difference was \$1.8 million and \$1.7 million for the nine months and three month periods ended September 30, 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)

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$10,055	\$14,371
Reverse repurchase agreements	45,076	5,449
Securities available for sale	118,345	114,801
Loans held for sale	8,145	11,070
Net Loans	499,460	475,910
Other assets	42,652	40,793
Total assets	<u>\$723,733</u>	<u>\$662,394</u>
Liabilities and Stockholders' Equity		
Deposits	523,729	478,633
Short-term borrowings	104,357	84,217
All other liabilities	6,654	2,478
Total liabilities	<u>634,740</u>	<u>565,328</u>
Stockholders' Equity		
Total stockholders' equity	<u>88,993</u>	<u>97,066</u>
Total liabilities and stockholders' equity	<u>\$723,733</u>	<u>\$662,394</u>

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Interest income	6,798	6,056	19,194	17,350
Interest expense	1,767	1,140	4,358	3,005
Net interest income	<u>5,031</u>	<u>4,916</u>	<u>14,836</u>	<u>14,345</u>
Provision for loan losses	(13)	149	10	424
Net interest income after provision for loan losses	<u>5,044</u>	<u>4,767</u>	<u>14,826</u>	<u>13,921</u>
Noninterest income				
Compensation and employee benefits	4,514	4,099	13,252	12,137
Occupancy and premises	729	386	2,216	1,157
Other expense	1,628	1,380	3,964	4,251
Total noninterest expense	<u>6,871</u>	<u>5,865</u>	<u>19,432</u>	<u>17,545</u>
Income from operations before income taxes	<u>1,236</u>	<u>1,159</u>	<u>3,257</u>	<u>3,091</u>
Income tax expense	345	25	875	45
Net income	<u>891</u>	<u>1,134</u>	<u>2,382</u>	<u>3,046</u>
Preferred stock dividends	0	0	0	0
Gain to common from repurchase of preferred stock	1,703	0	1,808	0
Net income allocated to common stockholders	<u>\$2,594</u>	<u>\$1,134</u>	<u>\$4,190</u>	<u>\$3,046</u>