



March 31, 2021

Dear Shareholder:

By now, you should have received CIB Marine Bancshares, Inc.'s ("CIB Marine", "we" or "our") Proxy Statement and WHITE Proxy Card to vote your shares. You may have also received a proxy statement with a blue proxy card from an offshore hedge fund, Hildene Opportunities Master Fund, Ltd. ("Hildene"). CIB Marine and its Board of Directors encourage you to protect your investment in CIB Marine against the interests of any one constituency, such as Hildene, and to vote your WHITE Proxy Card as soon as possible if you have not already done so. For your convenience, we have enclosed an additional copy of our WHITE Proxy Card, however, there is no need to vote again if you have already submitted a WHITE Proxy Card unless you inadvertently submitted a later-dated blue proxy card and now wish to change your vote. You may also contact our proxy solicitor, Okapi Partners, to vote your shares via telephone or online (see Okapi Partners contact information at the end of this letter).

You will notice that our Proxy Statement contains two proposals (election of Directors and ratification of our independent registered accounting firm) whereas the Proxy Statement issued by Hildene includes a lengthy third proposal, which they referred to as the "Recapitalization Proposal." This proposal, as originally submitted to CIB Marine, was not a proper matter to be brought before the shareholders for consideration at the 2021 Annual Meeting under Wisconsin law and, therefore, was not included in our Proxy Statement and will not be presented to our shareholders for consideration at the 2021 Annual Meeting. Hildene later attempted to revise its proposal into a proper form by changing it to an advisory vote but failed to do so prior to the deadline for shareholder proposals contained in our Bylaws or before we had mailed our Proxy Statement to shareholders. A vote on Hildene's third proposal will not be taken at the 2021 Annual Meeting for the reasons discussed below.

Please do not be misled into executing Hildene's blue proxy card in order to vote on an issue that will not be considered at the Annual Meeting. Only by voting our WHITE Proxy Card and electing the Board's nominees can you safeguard CIB Marine from the threat of self-enriching special interests.

Shareholders who closely follow CIB Marine have raised many questions about the proxy contest and the hedge fund pursuing it, as well as our proposal to address the remaining outstanding Series A and Series B noncumulative perpetual preferred shares (collectively the "Preferred Stock"). We answer many of those questions below with the hope that it will be instructive as you evaluate the materials you receive.

*Didn't CIB Marine just complete an exceptionally strong year? Why is Hildene attacking CIB Marine when things are going well?*

If Hildene were forthright with our shareholders, they would concede that it is precisely because we are performing well that Hildene is pursuing its agenda at this time, and that its disagreement is not with our performance, but rather our disciplined approach to preferred stock repurchases that requires any Preferred Stock repurchases to be on fair terms that build value for CIB Marine. Hildene wants to leverage our strong performance into a plan calling for the mandatory repurchase of our Preferred Stock at a substantial cost to us and our common shareholders. Hildene's strategy could only be executed when we are doing well, yet they have chosen an approach that has devolved into inflammatory innuendo, personal attacks, and misleading commentary, all in an attempt to weaken our resolve to pursue a disciplined approach to any repurchase of stock to ensure a favorable outcome for all our shareholders. We fully accept fact-based

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*"Community Banking – The Way It Used To Be"*

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criticism (in fact, we solicit it from shareholders), but we do not excuse the attempt to manipulate our shareholders or condone the attacks on the reputations of some of our most valuable contributors.

The Board has nominated four individuals who conduct themselves with the utmost integrity, competency, and professionalism. They hold important leadership positions on critical committees and have contributed directly to the vastly improved financial performance of CIB Marine in recent years. We encourage you to vote for the continued Board leadership of Mark Elste, Ronald Rhodes, Mark Henderson and Charles Mires, the Directors who safeguard your interests on the Board.

Since Brian Chaffin became CEO and Mark Elste became Chairman of the Board in 2015, we have enjoyed a period of significant improvement and growth, which has greatly benefitted our common shareholders. Like every company, not every measure of performance is where we would prefer it to be, but we believe that Hildene has manipulated information to suit their desired narrative, even when that narrative is easily refuted by simply looking at the facts. Please consider the following financial performance measurements for 2020 and the period 2015 to 2020:

- Over the last five years, **CIBH's common share price has increased 147% on a reverse split-adjusted basis**, while our peer index (BKXTR) has increased 32%.
- CIB Marine's tangible book value per share of common stock has grown 340% from \$11.87 to \$52.28 between 2015 and 2020. Stated another way, **tangible book value per share has grown 25% per year, on average, or a total of \$51.9 million.**
- **Revenues have grown on average 15% per year from 2015 through 2020**, and income before taxes has grown from a loss in 2015 to \$10.9 million in 2020.
- CIB Marine's wholly owned bank subsidiary, CIBM Bank, reported a return on average assets of 1.23% in 2020, above median peer banks.
- The cost of funds peer ranking for CIBM Bank improved 25 percentage points in 2020 as its checking and savings account deposit balances grew by 24% and the cost of its time deposits dropped to the 20<sup>th</sup> percentile rank with peer banks.
- Non-interest income to total assets of 2.99% for **CIBM Bank was in the 96<sup>th</sup> percentile rank** versus peer banks.
- Non-accrual loans to total loans, net charge-offs to total loans, and allowance for loan losses to total loans for CIBM Bank all outperformed median peer banks in 2020.
- Compensation has grown, but not for the reason Hildene insinuates. Over the last five years, nearly all of the increase is directly related to performance-based pay, most notably commissions for profitable business activity production (particularly mortgage lending). **Salary and wage compensation increased just 2.5% per year.**

#### *Why isn't Hildene's Recapitalization Proposal on CIB Marine's Proxy?*

Hildene's original Recapitalization Proposal either didn't consider or misunderstood applicable Wisconsin law. It then compounded the problem by waiting ten days after being notified of the errors to respond to us with a revised proposal. By then, our Proxy Statement had already been mailed to shareholders. Reissuing our Proxy Statement at this juncture, incurring additional costs, and creating shareholder confusion in order to accommodate Hildene's mistakes is simply not an option the Board is willing to entertain.

Hildene claimed in its letter to our shareholders that its Recapitalization Proposal was rejected due to "a minor technicality in the Company's bylaws". The exclusion of the proposal was not because of our ByLaws. Under Wisconsin statutes, only the board of directors of a Wisconsin corporation may initiate an amendment to its articles of incorporation. Shareholders are not permitted to unilaterally initiate any such amendment, which is precisely what Hildene attempted to do in its Recapitalization Proposal. This is not a technicality, rather a requirement under well-established Wisconsin law.

Why doesn't Hildene simply sell its preferred shares on the open market?

They can and, at one time, Hildene's representative told us they intended to do so. The reason they have not may be that they think they can force us to pay a premium for the shares that they could not get on the open market.

One thing Hildene does not tell you is that it purchased its shares of Preferred Stock in 2019 in an auction upon the dissolution of a structured finance fund in which it was an investor. As such, Hildene had a liquidity event and could have exited the Preferred Stock in 2019, but it chose to purchase the shares in the auction to obtain direct ownership. It subsequently purchased common shares in early 2021 to allow it to pursue mandatory repurchases at above-market prices.

Why doesn't CIB Marine buy Preferred Stock in voluntary repurchase transactions anymore?

We would like to, but Hildene executed an obstructionist strategy to prevent us from reinstating our successful voluntary repurchase program after certain terms of our Amended and Restated Articles of Incorporation, as amended ("Articles"), expired in June 2020. In anticipation of the expiring provisions, we proposed an additional Article amendment to reinstate our ability to engage in voluntary repurchase transactions, an amendment that was overwhelmingly approved by our common shareholders at our Annual Meeting in April 2020. Prior to the vote of preferred shareholders, Hildene informed us that it opposed voluntary repurchase transactions and intended to vote against the amendment. We were informed that, in addition to its Preferred Stock ownership, it held delegated voting rights from another large preferred shareholder, which purportedly gave Hildene majority voting control of the Preferred Stock. The amendment was put to the preferred shareholders at a special meeting held in August 2020, but the amendment was defeated. The voting results were consistent with Hildene's purported voting control at the time: 62% opposed, 38% in favor. In late 2020, we asked them to reconsider the amendment because 95% of common and a large minority of preferred shares voted indicating a desire for the repurchases to recommence. Hildene refused to do so.

Hildene's actions in 2020 may also have hampered CIBH stock performance. CIBH out-performed the bank stock index by 10% from January 2019 until August 4, 2020, the date we announced the vote on the Article amendment that Hildene took credit for defeating. From that date through the end of 2020, CIBH underperformed the bank stock index despite outperforming peers in earnings and asset quality. Of course, there can be no certainty that Hildene's actions depressed the performance of CIBH stock, but shareholders will need to evaluate what responsibility Hildene bears for defeating the restart of the successful voluntary Preferred Stock repurchase program and how likely Hildene's nominees to the Board will be to pursue the best interests of common shareholders when those interests conflict with Hildene's Preferred Stock interests.

It seems very clear that Hildene's Recapitalization Proposal is not in the best interests of CIBH holders, but what alternative are you proposing?

As we said many times, the repurchase of Preferred Stock is one of the best uses of our available cash, but only if such repurchases can be made on fair and reasonable terms. Freely negotiated voluntary transactions remain the best process to ensure transactions are on beneficial terms for all, but the efforts of Hildene, and those that delegate voting authority to it, have made that impossible for the time being.

**The Board has put together a plan to retire a significant amount of Preferred Stock in 2021**, as well as additional shares in the coming years, and does not require us to incur any of the damaging debt or preferred dividend terms included in Hildene's Recapitalization Proposal. For our common shareholders' consideration, we propose to **repurchase at least 50% of the currently outstanding Series A and Series B Preferred Stock in 2021 at a price of \$775 per share**. The roughly \$17.0 million purchase price would be funded from available cash. The remaining unpurchased shares of Preferred Stock would continue to be noncumulative and perpetual. Shares would be repurchased on a pro-rata basis as between the Series A and

Series B shares. **We intend to pursue future annual repurchases at a price of \$775 per share, based on available capital resources** and transactions being in the best interests of CIB Marine and its continuing shareholders. We are hopeful that all shares could be repurchased within four years of the first repurchase, subject to financial considerations.

**This proposal provides an exit strategy for preferred shareholders at a price above prior repurchases and meets the requirements of our disciplined approach to Preferred Stock repurchases.**

	CIB Marine Plan	Hildene Plan
<b>Shares to be Repurchased in 2021</b>	21,946 pro-rata (50.0%)	23,529 (53.6%)
<b>Price Per Share</b>	\$775	\$850
<b>SubDebt Required</b>	None	\$20 million
<b>Mandatory Payment of 7% Dividends</b>	No (no change to current noncumulative terms)	Yes (changes current noncumulative terms)
<b>Repurchase Order</b>	Pro-rata Series A and Series B	Mandatory purchase of Series A before Series B
<b>Accretive to Common Tangible Book Value</b>	Yes	No
<b>Article Amendment Required</b>	Yes	Yes

The strategy outlined above requires several steps, including distributing cash from CIBM Bank to CIB Marine, related regulatory approvals, completing an analysis to ensure the plan does not put CIB Marine's tax assets at significant risk of loss, and consent of preferred and common shareholders to an amendment to our Articles. The proposal above is an outline only. Specific terms are subject to change and final details of the plan will be provided in subsequent communications.

***If all goes according to plan, we would be in a position to execute the large first round of repurchases in the fourth quarter of 2021.***

In light of our strong financial performance, now is the time to execute on a plan to repurchase the Preferred Stock. We need common shareholder approval to get it done. The strongest message that our shareholders could send to Hildene in support of our plan would be to overwhelmingly vote our WHITE Proxy Card for our Board nominees, who have all participated in developing our plan and have guided us in our disciplined repurchase efforts.

*Would the Hildene Recapitalization Proposal speed up Preferred Stock repurchases?*

No. Our analysis indicates that **Hildene's Recapitalization Proposal could cause the repurchase process to take an additional six years** as compared to our plan. We anticipate that, under the Hildene proposal, it would take close to ten years to repurchase all outstanding shares of Preferred Stock due largely to the debt service obligations on the proposed subordinated debt, as well as the mandatory 7% dividends on any unpurchased Preferred Stock. Over the course of those repurchases as proposed by Hildene, we project that **we would be required to pay more than \$20,000,000 combined in debt service and preferred dividends**, not including the repayment of principal on the subordinated debt or the price paid for the Preferred Stock. We believe that using available cash for repurchases is far more productive for all parties and would create immediate value for our common shareholders at a price above prior Preferred Stock repurchases.

*What should we do next?*

**Vote the WHITE Proxy Card. Discard Hildene's blue proxy card.** You might be tempted to express your displeasure with Hildene by completing its card and voting against its repurchase proposal, but doing so would not only be unnecessary in that the proposal is out of order and will not be considered at the

Annual Meeting, but could also be counterproductive to the Board's recommendations as only the latest dated proxy received from each shareholder will be considered valid. That is to say, if you vote for CIB Marine's director nominees on our WHITE Proxy Card and later submit a vote against Hildene's Recapitalization Proposal on its blue proxy card, you will have negated your vote for our director nominees. For these reasons, **it is important to only vote the WHITE Proxy Card** for our four director nominees to prevent Hildene from interrupting our continued strong financial performance. However, if you have mistakenly executed the blue proxy card, contact our Proxy Solicitor, Okapi Partners, using the contact information below to submit a later-dated vote on our WHITE Proxy Card. Remember, only your last timely presented proxy card will be counted at the Annual Meeting.

We believe that our proposal for Preferred Stock repurchases is a much better plan for all of our shareholders, but we value your opinion and encourage you to contact us at [ShareholderRelations@cibmarine.com](mailto:ShareholderRelations@cibmarine.com) to share any thoughts you have about any viable options to repurchase Preferred Stock.

Sincerely,



J. Brian Chaffin  
President & Chief Executive Officer

If you have questions about the Annual Meeting or need assistance with voting your **WHITE** Proxy Cards, please contact our proxy solicitor:



Okapi Partners LLC  
1212 Avenue of the Americas, 24<sup>th</sup> Floor  
New York, New York 10036

**Banks and Brokerage Firms, Please Call: (212) 297-0720**

**Shareholders, Please Call: (855) 305-0855**

Via email: [info@okapipartners.com](mailto:info@okapipartners.com)

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## **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.