# FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
**SEC Accession No.** 0000950137-99-000556

(HTML Version on secdatabase.com)

## FILER

**CORUS BANKSHARES INC**

CIK:**51939**| IRS No.: **410823592** | State of Incorp.:**MN** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-06136** | Film No.: **99574031**
SIC: **6022** State commercial banks

Mailing Address
*3959 N LINCOLN AVE*
*CHICAGO IL 60613*

Business Address
*3959 N LINCOLN AVE*
*LINCOLN NATIONAL BANK BLDG*
*CHICAGO IL 60613*
*3125497100*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
\- SECURITIES EXCHANGE ACT OF 1934
OR
_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998
Commission File Number 0-6136

CORUS BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Minnesota | 41-0823592 |
| (State of incorporation of organization) | (I.R.S. Employer Identification No.) |
| 3959 N. Lincoln Ave., Chicago, Illinois | 60613-2431 |
| (Address of principal executive offices) | (Zip Code) |

(773) 832-3088
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of exchange on which registered |
|---|---|
| Common stock, par value $0.05 per share | NASDAQ |

Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Documents Incorporated By Reference

Parts I and II of this Form 10-K incorporate by reference certain information from the Registrant's 1998 Annual Report to Shareholders. Part III of this Form 10-K incorporates by reference certain information from the Registrant's definitive Proxy Statement dated March 17, 1999, for its Annual Meeting of Shareholders to be held on April 28, 1999.

On February 28, 1999, the Registrant had 14,519,890 common shares outstanding. Of these, 7,284,555 common shares having an aggregate market value (based on the closing price for these shares as reported in a summary of national market issues in The Wall Street Journal for stocks listed on NASDAQ on February 28, 1999) of approximately $239.5 million, were owned by shareholders other than directors and executive officers of the Registrant and any other person known by the Registrant as of the date hereof to beneficially own five percent or more of Registrant's common shares.



# PART I.

## ITEM 1. BUSINESS

Corus Bankshares, Inc., incorporated in Minnesota in 1958, is a bank holding company registered under the Bank Holding Company Act of 1956. Corus provides consumer and corporate banking products and services through its wholly-owned banking subsidiary, Corus Bank, N.A.

The bank has eleven branches in the Chicago metropolitan area and offers general banking services such as checking, savings, money market and time deposit accounts; commercial, mortgage, home equity, student and personal loans; trust and investment management services; safe deposit boxes and a variety of additional services. The bank also provides clearing, depository and credit services to more than 550 currency exchanges in the Chicago area and an additional 20 in Milwaukee, Wisconsin.

Corus owns an operations subsidiary, Bancorp Operations Company, that comprises an insignificant portion of Corus' total assets and net income. Bancorp Operations Company provides item processing, bookkeeping and other ancillary bank support services to Corus' bank subsidiary.

COMPETITION

All of Corus' principal business activities are highly competitive. Corus competes actively with other financial services providers offering a wide array of financial products and services. The competitors include other banks, savings and loan associations, credit unions, brokerage firms, finance companies, insurance companies, mutual funds and mortgage bankers. Competition is generally in the form of interest rates and points charged on loans, interest rates paid on deposits, service charges, banking hours, fiduciary services and other service-related products.

EMPLOYEES

At December 31, 1998, Corus employed a total of 674 full-time equivalent persons, consisting of 138 executives, management and supervisory personnel and 536 clerical and secretarial employees.

SUPERVISION AND REGULATION

General

Corus is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the Act), and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before acquiring, merging with or consolidating into another bank holding company, acquiring substantially all the assets of any bank, or acquiring direct or indirect ownership or control of 5% or more of the voting shares of any bank or bank holding company.

The Act also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of 5% or more of the voting shares of any company which is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. However, Corus may engage in and own shares of companies engaged in





certain businesses determined by the Federal Reserve Board to be closely related to banking or managing or controlling banks.

The Illinois Bank Holding Company Act of 1957 (the Illinois Act), as amended, permits Corus to acquire banks located anywhere in Illinois. Other amendments of the Illinois Act authorize combinations between banks and bank holding companies located in Illinois and banks and bank holding companies located in another state if that other state has passed legislation granting similar privileges to Illinois banks and bank holding companies. Effective December 1, 1990, holding companies from any state were permitted to acquire Illinois banks and bank holding companies if the other state allows Illinois bank holding companies the same privilege. In June 1993, the Illinois Act was amended to eliminate all branch restrictions. Accordingly, banks located in Illinois are permitted to establish branches anywhere in the state.

Corus' subsidiary bank is a national bank and, as such, is supervised, examined and regulated by the Office of the Comptroller of the Currency under the National Bank Act. Since a national bank is also a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation (FDIC), the subsidiary bank is also subject to the applicable provisions of the Federal Reserve Act, the Federal Deposit Insurance Act, and, in certain respects, to state laws applicable to financial institutions.

The subsidiary bank is subject to FDIC deposit insurance assessments. Under the FDIC's risk-based assessment system, the assessment rate is based on classification of a depository institution in one of nine risk assessment categories. Such classification is based upon the institution's capital level and upon certain supervisory evaluations of the institution by its primary regulator. The subsidiary bank's FDIC deposit insurance cost for 1999 will be approximately .01% of deposits.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) initiated new intense regulation for the financial services industry. FDICIA made significant changes in the legal environment for insured banks, including reductions in insurance coverage for certain types of deposits, increases in consumer-oriented requirements, and substantial revisions in the supervision, examination and audit processes. FDICIA also required new reporting by banks and mandated adoption of new regulations concerning capital, liquidity, internal controls, safety and soundness and prompt corrective action.

Capital Adequacy

The Federal Reserve Board established risk-based capital guidelines that require bank holding companies to maintain minimum ratios. The main objective of the risk-based capital requirements is to provide a fair and consistent framework for comparing capital positions of all banking institutions. Under these guidelines, capital consists of two components, core capital elements (Tier 1 capital) and supplementary capital elements (Tier 2 capital). Assets and off-balance-sheet items are assigned broad risk categories. The aggregate dollar value of each category is multiplied by a risk weight associated with this category.

In 1992, the FDIC adopted new regulations that defined five capital categories for purposes of implementing the requirements under FDICIA. The five capital categories, which range from "well-capitalized" to "critically under-capitalized", are based on the level of risk-based capital measures. The minimum risk-based capital ratios for Tier 1 capital to risk-weighted assets and total risk-based capital to risk-weighted assets to be classified as well-capitalized are 6.0% and 10.0%, respectively. At December 31, 1998, Corus' Tier 1 capital and total risk-based capital ratios were 15.0% and 18.1%, respectively.





In addition, bank regulatory agencies established a leverage ratio to supplement the risk-based capital guidelines. The leverage ratio is intended to ensure that adequate capital is maintained against risks other than credit risk. A minimum required ratio of Tier 1 capital to total assets of 3.0% is required for the highest quality bank holding companies that are not anticipating or experiencing significant growth. All other banking institutions must maintain a leverage ratio of 4.0% to 5.0% depending upon an institution's particular risk profile. At December 31, 1998, Corus' leverage ratio was 10.3%.

Interstate Banking

The Riegle-Neal Interstate Bank and Branching Efficiency Act of 1994 (IBBA) permits bank holding companies that are adequately capitalized and managed to acquire banks located in any other state after September 29, 1995, subject to certain statewide and nationwide deposit concentration limits. States may also prohibit acquisition of banks that have not been in existence for at least five years.

The interstate branching by merger provisions were effective on June 1, 1997, unless a state takes legislative action prior to that date. The long-term effects on Corus of such changes in interstate banking and branching laws cannot be predicted. However, it is likely that there will be increased competition from national and regional banking firms headquartered outside of Illinois.

STATISTICAL DATA

Pages 4 through 10 contain supplemental statistical data. This data should be read in conjunction with Corus' Management's Discussion and Analysis of Financial Statements and the Consolidated Financial Statements and notes thereto of the 1998 Annual Report to Shareholders (1998 Annual Report), incorporated herein by reference in response to Items 7 and 8 hereof.

CHANGES IN INTEREST INCOME AND EXPENSE

The following table shows the changes in interest income and expense by major categories of assets and liabilities attributable to changes in volume or rate or both, for the periods indicated:

<TABLE>
<CAPTION>

| (thousands) | Year Ended December 31, 1998 | | |
|---|---|---|---|
| | Volume | Rate | Total |
| <S> | <C> | <C> | <C> |

| | | | |
|---|---|---|---|
| Interest Income: | | | |
| Interest-earning deposits with banks | $ 972 | $ (2) | $ 970 |
| Federal funds sold | (839) | (49) | (888) |
| Taxable securities other than common stocks | 9,311 | (325) | 8,986 |
| Common stocks | 1,614 | (311) | 1,303 |
| Tax-advantaged securities | (105) | (12) | (117) |
| Trading account securities | 334 | (42) | 292 |
| Loans, net of discount | (4,410) | (2,449) | (6,859) |
| Net Increase (Decrease) | 6,877 | (3,190) | 3,687 |
| Interest Expense: | | | |
| NOW and money market deposits | (1,133) | (1,761) | (2,894) |
| Savings deposits | (365) | 38 | (327) |
| Time deposits | 9,807 | 341 | 10,148 |
| Short-term borrowings | (190) | (49) | (239) |
| Federal Home Loan Bank advances | -- | (44) | 44 |
| Net Increase (Decrease) | 8,119 | (1,475) | 6,644 |

</TABLE>





<TABLE>
<S> <C> <C> <C>

| | | | |
|---|---|---|---|
| Decrease in Net Interest Income | $ (1,242) | $ (1,714) | $ (2,957) |

<CAPTION>

| | Year Ended December 31, 1997 | | |
|---|---|---|---|
| | Volume | Rate | Total |
| <S> | <C> | <C> | <C> |
| Interest Income: | | | |
| Interest-earning deposits with banks | $ (206) | $ (26) | $ (232) |
| Federal funds sold | 2,865 | 141 | 3,006 |
| Taxable securities other than common stocks | (1,602) | (307) | (1,909) |
| Common stocks | 1,481 | (73) | 1,408 |
| Tax-advantaged securities | (193) | 40 | (153) |
| Trading account securities | 380 | 380 | 760 |
| Loans, net of discount | (3,211) | (6,880) | (10,091) |
| Net Decrease | (486) | (6,725) | (7,211) |
| Interest Expense: | | | |
| NOW and money market deposits | (187) | 1,596 | 1,409 |
| Savings deposits | (567) | -- | (567) |
| Time deposits | 1,201 | 594 | 1,795 |
| Short-term borrowings | (494) | 229 | (265) |
| Federal Home Loan Bank advances | 652 | 26 | 678 |
| Net Increase | 605 | 2,445 | 3,050 |
| Decrease in Net Interest Income | $ (1,091) | $ (9,170) | $(10,261) |

</TABLE>

The tax-equivalent adjustment for interest income on tax-advantaged loans and securities is reflected through the rate column based on a marginal corporate income tax rate of 35%. Volume variances are computed using the change in volume multiplied by the previous year's rate. Rate variances are computed using the changes in rate multiplied by the previous year's volume. The change in interest due to both rate and volume has been allocated between the factors in proportion to the relationship of the absolute dollar amounts of the change in each.

SECURITIES PORTFOLIO

Carrying Value of Securities by Category

The carrying value of securities held by Corus were as follows:

<TABLE>
<CAPTION>

December 31

| (thousands) | 1998 | 1997 | 1996 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Available for sale | | | |
| U.S. Government and agencies | $529,374 | $191,236 | $183,404 |
| Corporate debt securities | 30,173 | 161,454 | 95,001 |
| Common stocks | 185,698 | 158,660 | 92,611 |
| Other | 152,423 | 20,513 | 8,013 |
| Total | 897,668 | $531,863 | $379,029 |
| Held to maturity | | | |
| State and municipal | $ 2,168 | $ 4,150 | $ 5,201 |
| Other | 4,442 | 5,129 | 6,053 |
| Total | $ 6,610 | $ 9,279 | $ 11,254 |

</TABLE>





Maturities of Securities

The scheduled maturities by security type as of December 31, 1998 were as follows:

<TABLE>
<CAPTION>

| (thousands) | One year or less | From one through five years | From five through ten years | After ten years | Not due at A single Maturity | Total |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| U.S. Government and agencies | $529,374 | $ -- | $ -- | $ -- | $ -- | $529,374 |
| Corporate debt securities | 15,302 | 14,871 | -- | -- | -- | 30,173 |
| State and municipal | 350 | 646 | 672 | 500 | -- | 2,168 |
| Common stocks | -- | -- | -- | -- | 185,698 | 185,698 |
| Other | -- | 15 | 12,740 | 124,047 | 20,063 | 156,865 |
| Total | $545,026 | $ 15,532 | $ 13,412 | $124,547 | $205,761 | $904,278 |

</TABLE>

The weighted-average yield for each range of maturities of securities at December 31, 1998 was as follows:

<TABLE>
<CAPTION>

| | One year or less | From one through five years | From five through ten years | After ten years | Not due at A single Maturity | Total |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| U.S. Government and agencies | 5.03% | -- % | -- % | -- % | -- % | 5.03% |
| Corporate debt securities | 6.14 | 6.09 | -- | -- | -- | 6.12 |
| State and municipal | 10.55 | 9.29 | 7.46 | 9.37 | -- | 8.94 |
| Common stocks | -- | -- | -- | -- | 2.97 | 2.97 |
| Other | -- | 5.50 | 6.00 | 5.63 | 6.81 | 5.81 |

</TABLE>

Actual maturities may differ from those scheduled due to prepayments from issuers. Common stock yields are not considered meaningful for purposes of this analysis. Yields on tax-advantaged securities reflect a tax equivalent adjustment based on a marginal corporate tax rate of 35%.

LOAN PORTFOLIO

Classification of Loans

Corus' loans were as follows:

<TABLE>
<CAPTION>

| (thousands) | December 31 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Commercial real estate | $ 761,564 | $ 711,495 | $ 655,793 | $ 582,331 | $ 354,893 |
| Student | 431,304 | 412,926 | 402,859 | 379,129 | 354,073 |
| Residential first mortgage | 137,683 | 209,669 | 286,042 | 317,787 | 233,437 |
| Commercial | 108,759 | 131,868 | 188,755 | 170,793 | 57,093 |

</TABLE>





<TABLE>

| | | | | | |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Home equity | 85,408 | 131,868 | 188,755 | 170,793 | 57,093 |
| Consumer | 26,869 | 24,955 | 27,844 | 30,273 | 32,393 |
| Total | $ 1,551,587 | $1,545,975 | $ 1,623,145 | $ 1,558,782 | $ 1,100,509 |

</TABLE>

Maturities of Loans and Sensitivity to Changes in Interest

The following table classifies the scheduled maturities for the following loan portfolio categories at December 31, 1998:

<TABLE>
<CAPTION>

| (thousands) | One year or less | From one to five years | After five years | Total |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Commercial real estate | $241,721 | $ 385,171 | $ 134,672 | $ 761,564 |
| Commercial | 70,646 | 35,622 | 2,491 | 108,759 |

</TABLE>

Of the loans maturing after one year, $269.8 million have fixed rates. To manage the interest rate exposure of specific, fixed-rate commercial real estate loans and other loans, Corus has entered into interest rate swap agreements. For additional information on such financial instruments, see Note 10 to the Consolidated Financial Statements on pages 41 through 43 of the 1998 Annual Report, incorporated herein by reference in response to Item 8 hereof.

RISK ELEMENTS IN THE LOAN PORTFOLIO

Nonaccrual and Past Due Loans

Nonaccrual loans were as follows:

<TABLE>
<CAPTION>

| (thousands) | December 31 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Nonaccrual loans | $ 5,307 | $ 8,641 | $ 7,427 | $ 8,536 | $ 2,389 |
| Nonaccrual loans to total loans | 0.34% | 0.56% | 0.46% | 0.55% | 0.22% |

</TABLE>

Interest income that should have been recorded under the original terms of these loans totaled $405,000 for the year ended December 31, 1998. Total interest income recorded for these loans in 1998 was $229,000.

Loans past due 90 days or more, including nonaccrual loans, were as follows:

<TABLE>
<CAPTION>

December 31

| (thousands) | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Loans past due 90 days or more | $ 34,877 | $ 41,248 | $ 50,368 | $ 32,714 | $20,620 |
| Less guaranteed student loans | 17,543 | 14,077 | 15,163 | 13,913 | 13,252 |
| Net loans past due 90 days or more | $ 17,334 | $ 27,171 | $ 35,205 | $ 18,801 | $ 7,368 |
| Net loans past due 90 days or more as a percentage of total loans | 1.12% | 1.76% | 2.17% | 1.21% | 0.67% |





Guaranteed student loans that are greater than 90 days past due are classified as performing due to the principal and accrued interest on such loans being guaranteed by individual state or private non-profit agencies.

Potential Problem Loans

In addition to those loans disclosed under the preceding "Nonaccrual and Past Due Loans" section, management identified, through their problem loan identification system, certain other loans in the portfolio that exhibit a higher than normal credit risk. However, these loans were not classified as nonperforming loans. These other loans include loans that are past maturity more than 45 days, have recent adverse operating cash flow or balance sheet trends, or have general risk characteristics that the loan officer feels might jeopardize the future timely collection of principal and interest payments. At December 31, 1998, the principal amount of these loans was $8.5 million. This amount generally includes loans that were classified for regulatory purposes.

Analysis of the Allowance for Loan Losses

The activity in the allowance for loan losses was as follows:

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| (thousands) | 1998 | 1997 | 1996 | 1995 | 1994 |
| Balance at beginning of year | $30,660 | $32,668 | $25,640 | $20,157 | $19,552 |
| Provision for loan losses | 10,000 | 16,000 | 16,000 | 5,779 | --- |
| Less charge-offs: | | | | | |
| Commercial real estate loans | 18 | 350 | 206 | 284 | 65 |
| Student loans | 1,240 | 9,707 | 4,605 | 81 | 45 |
| Residential first mortgage loans | 414 | 431 | 1 | 4 | 20 |
| Home equity loans | 5,171 | 8,454 | 6,421 | 28 | --- |
| Commercial loans | 2 | 22 | 92 | 269 | 35 |
| Consumer loans | 7 | 131 | 16 | 153 | 148 |
| Total charge-offs | 6,852 | 19,095 | 11,341 | 819 | 313 |
| Add recoveries: | | | | | |
| Commercial real estate loans | 166 | 195 | 1,026 | 44 | 210 |
| Student loans | 143 | 24 | 80 | 105 | 100 |
| Residential first mortgage loans | --- | 3 | --- | 5 | 5 |
| Home equity loans | 1,553 | 745 | 375 | --- | --- |
| Commercial loans | 9 | 19 | 770 | 69 | 303 |
| Consumer loans | 94 | 101 | 118 | 300 | 300 |
| Total recoveries | 1,965 | 1,087 | 2,369 | 523 | 918 |
| Net (charge-offs) recoveries | (4,887) | (18,008) | (8,972) | (296) | 605 |
| Balance at end of year | $35,773 | $30,660 | $32,668 | $25,640 | $20,157 |
| Net (charge-offs)/recoveries to average loans Outstanding | (0.32%) | (1.15%) | (0.56%) | (0.02%) | 0.06% |

Allocation of the Allowance for Loan Losses

The allocation of the allowance for loan losses was as follows:

<TABLE>
<CAPTION>

| (thousands) | December 31 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Commercial real estate | $ 12,971 | $ 2,814 | $ 2,575 | $ 2,934 | $ 5,801 |
| Student | 2,782 | 2,658 | 3,608 | 11,489 | 1,202 |
| Residential first mortgage | 459 | 784 | 1,034 | 1,327 | 2,451 |
| Home equity | 10,070 | 16,180 | 21,460 | 1,000 | 827 |
| Commercial | 269 | 29 | 45 | 445 | 1,368 |
| Consumer | 169 | 306 | 643 | 476 | 291 |
| Unallocated | 9,053 | 7,889 | 3,303 | 7,969 | 8,217 |
| Total | $35,773 | $30,660 | $32,668 | $25,640 | $20,157 |

</TABLE>

The increase in the allocation of the allowance for loan losses from 1997 to 1998 for commercial real estate loans reflects various factors, among them: (i) commercial real estate construction loans increased to $228 million at December 31, 1998 from $157 million at December 31, 1997 (refer to page 24 of the 1998 Annual Report); (ii) unused commitments under existing commercial real estate lines of credit increased to $243 million at December 31, 1998 from $154 million at December 31, 1997 (refer to page 42 of the 1998 Annual Report); and (iii) commitment letters outstanding on commercial real estate loans increased to $373 million at December 31, 1998 from $228 million at December 31, 1997 (refer to page 42 of the 1998 Annual Report).

Loan Portfolio Composition

The composition of the loan portfolio was as follows:

<TABLE>
<CAPTION>

| (thousands) | December 31 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Commercial real estate | 49% | 46% | 40% | 38% | 33% |
| Student | 28 | 27 | 25 | 24 | 32 |
| Residential first mortgage | 9 | 14 | 18 | 20 | 21 |
| Home equity | 7 | 8 | 11 | 11 | 5 |
| Commercial | 5 | 3 | 4 | 5 | 6 |
| Consumer | 2 | 2 | 2 | 2 | 3 |
| Total | 100% | 100% | 100% | 100% | 100% |

</TABLE>

For further review of the loan loss provision and the allowance for loan losses, reference is made to pages 26 through 27 of Management's Discussion and Analysis of Financial Statements of the 1998 Annual Report, incorporated herein by reference in response to Item 7 hereof.





DEPOSITS

The scheduled maturities of time deposits in denominations of $100,000 and greater was as follows at December 31, 1998:

| (thousands) | |
|---|---|
| Maturing within 3 months | $ 69,508 |
| After 3 but within 6 months | 82,572 |
| After 6 but within 12 months | 142,296 |
| After 12 months | 215,918 |
| Total | $ 510,294 |

RETURN ON EQUITY AND ASSETS

The following table presents certain ratios relating to Corus' equity and assets:

<TABLE>
<CAPTION>

| | December 31 | | |
|---|---|---|---|
| | 1998 | 1997 | 1996 |
| <S> | <C> | <C> | <C> |
| Return on average total assets | 1.7% | 1.8% | 2.0% |
| Return on average common shareholders' equity | 13.7 | 14.9 | 20.4 |
| Dividend payout ratio | 19.8 | 19.5 | 15.4 |
| Average equity to average total assets | 12.2 | 11.8 | 9.9 |

</TABLE>

ITEM 2. PROPERTIES

Corus utilizes the building facilities of its Irving Park branch, which is located at 3959 N. Lincoln Avenue, Chicago, Illinois, for its executive offices. Corus owns the property and buildings on which nine of the eleven bank branch locations are located. The other two branch locations are leased from unrelated parties.

ITEM 3. LEGAL PROCEEDINGS

Corus is involved in various legal and regulatory proceedings, many involving matters that arose in the ordinary course of business. The consequences of these proceedings are not presently determinable but, in the opinion of management, these proceedings will not have a material effect on the results of operations, financial position, liquidity or capital resources of Corus, except possibly for the matter discussed below.

As disclosed previously, Corus discovered that certain former employees in the student loan servicing area had falsified some records of telephone calls, from late 1993 to April 1994, to students whose loans were delinquent. The telephone calls are a required action to maintain the enforceability of a student loan's government guarantee. Corus terminated the employees involved and informed the U.S. Department of Education immediately upon discovery of the problem and the Department commenced an investigation. The Department's investigation expanded in 1995 to include a review of whether Corus' student loan division engaged in improper practices from 1988 to April 1994, including whether information contained on guarantee claim forms may have been falsified.





Shortly after notifying the Department of the problems in the student loan servicing area, Corus entered into an interim agreement with the Department pursuant to which it agreed, pending the conclusion of the investigation, not to request payment from any guarantor or the Department on any loans that Corus is unable to state with certainty were not affected by incorrect servicing history documentation. A total of $14.5 million of loans subject to the interim agreement were charged-off against the allowance for loan losses since 1996. The ultimate collectibility of these loans is uncertain.

Although certain employees of Corus may have acted illegally or violated Department policy or regulations, management is unable to predict what actions, if any, the Department will take following completion of its investigation, and cannot estimate the magnitude of the violations or the amount or range of any liability that Corus will ultimately incur. As such, management is unable to quantify either the amount of student loans that may lose their government guarantee or the amount of loans that it may be required to repurchase and, therefore, the effect such amounts and any related penalties will have on Corus' financial condition or results of operations. No legal proceedings have been commenced against Corus as a result of the investigation.

If it is ultimately determined that Corus acted illegally or violated Department policy or regulations with respect to certain loans in a significant number of instances or if a settlement is reached, Corus could (i) lose its government guarantees with respect to certain student loans and (ii) be required to repurchase a substantial amount of delinquent student loans for which Corus previously received guarantee payments. In addition, Corus or individual employees could be subject to substantial penalties. If the Department were to bring an action, and be successful in proving violations of law related to the student loan program, potential sanctions could include significant fines, recovery of treble amounts of guarantee payments incorrectly received by Corus and the suspension of Corus' continued participation in the student loan program.

Corus does not condone or permit such improper practices and is cooperating fully with the Department's investigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

Corus' common stock trades on the NASDAQ National Market tier of The NASDAQ Stock Market under the symbol: CORS. The high and low prices for the common stock for the calendar quarters indicated, as reported by NASDAQ, are listed on page 50 of the 1998 Annual Report, incorporated herein by reference in response to Item 5 hereof.





APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

As of February 28, 1999, there were 443 shareholders owning Corus' common stock, which has a par value of $0.05 per share. Shareholders that own stock in nominee (i.e., street) name are excluded from the number of security holders of record.

DIVIDENDS ON COMMON STOCK

Quarterly cash dividends per common share for the last two years are included on page 50 of the 1998 Annual Report, incorporated herein by reference in response to Item 5 hereof. Dividends were declared and paid on a quarterly basis. The declaration of dividends is at the discretion of Corus' Board of Directors and depends upon, among other factors, earnings, capital requirements and the operating and financial condition of Corus.

ITEM 6. SELECTED FINANCIAL DATA

Refer to page 50 of the 1998 Annual Report, incorporated herein by reference for additional selected financial data.

<TABLE>
<CAPTION>

| | December 31 | | | | |
|---|---|---|---|---|---|
| (thousands, except per share data) | 1998 | 1997 | 1996 | 1995 | 1994 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Interest income | $ 187,525 | $ 183,932 | $ 190,950 | $ 171,114 | $ 114,541 |
| Interest expense | 89,305 | 82,661 | 79,611 | 72,597 | 45,748 |
| Net interest income | 98,220 | 101,271 | 111,339 | 98,517 | 68,793 |
| Provision for loan losses | 10,000 | 16,000 | 16,000 | 5,779 | -- |
| Net interest income after provision for loan losses | 88,220 | 85,271 | 95,339 | 92,738 | 68,793 |
| Noninterest income, excluding securities gains (losses) | 20,747 | 22,032 | 19,436 | 15,443 | 12,572 |
| Securities gains (losses), net | 4,919 | 4,881 | 3,316 | (1,332) | 663 |
| Noninterest expense | 51,889 | 51,677 | 50,181 | 51,650 | 45,222 |
| Income tax expense | 21,369 | 21,136 | 24,005 | 19,429 | 12,790 |

| | | | | | |
|---|---|---|---|---|---|
| Net income available to common shareholders | 40,628 | 39,371 | 43,905 | 35,770 | 24,016 |
| Net income per share: | | | | | |
| Basic | $ 2.79 | $ 2.66 | $ 2.96 | $ 2.36 | $ 1.58 |
| Diluted | 2.75 | 2.63 | 2.93 | 2.35 | 1.57 |
| Cash dividends declared per common share | $ 0.555 | $ 0.530 | $ 0.480 | $ 0.360 | $ 0.300 |
| Assets | $2,589,415 | $ 2,251,927 | $2,218,528 | $2,125,092 | $1,889,445 |

</TABLE>





ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained under the caption "Management's Discussion and Analysis of Financial Statements" on pages 18 through 31 of the 1998 Annual Report is incorporated herein by reference.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained under the caption "Risk Management" on pages 27 through 29 of the 1998 Annual Report is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Corus, including the notes thereto, and other information on pages 32 through 50 of the 1998 Annual Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 12, 1997, the Audit Committee and Board of Directors of Corus recommended that the shareholders ratify Arthur Andersen LLP at the annual meeting as independent accountants of Corus for fiscal 1997. This recommendation caused the dismissal of KPMG LLP (KPMG) as the independent accountants of Corus upon the completion of the audit of Corus' financial statements as of and for the year ended December 31, 1996 and the issuance of their report thereon.

For the year ended December 31, 1996, KPMG's reports on the financial statements did not contain an adverse or a disclaimer of opinion nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

For the year ended December 31, 1996 and from December 31, 1996 through the effective date of the dismissal, there were no disagreements between KPMG and Corus on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure or any reportable events.

Corus requested that KPMG furnish a letter addressed to the United States Securities and Exchange Commission stating whether KPMG agrees with the preceding statements. KPMG's letter dated March 25, 1997 is incorporated by reference to Corus' Annual Report on Form 10-K for the year ended December 31, 1996.





PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors and executive officers of Corus is incorporated herein by reference to the descriptions under "Elections of Directors and Ownership of Shares" on pages 2 through 4 of the 1999 Proxy Statement. For both those executive officers listed in the Proxy as well as the other executive officers of the Company (Senior Vice President title and greater) not listed in the Proxy, the following is a table providing the executive officer's name, age, position(s) held with the Company and Subsidiaries and the date the officer assumed their present office(s).

EXECUTIVE OFFICERS OF THE REGISTRANT

| Name | Age | Position(s) and Office(s) Held with the Company and Subsidiaries | Assumed Present Office(s) |
|---|---|---|---|
| J.C. Glickman | 83 | Chairman of the Board of the Company | June 1, 1984 |
| Robert J. Glickman | 52 | President and Chief Executive of the Company and Corus Bank, N.A. | June 1, 1984 |
| David H. Johnson, III | 44 | Executive Vice President of the Company and Chief Operating Officer of Corus Bank, N.A. | June 10, 1996 |
| Michael G. Stein | 38 | Executive Vice President of Corus Bank, N.A. | February 19, 1996 |
| Timothy H. Taylor | 34 | Executive Vice President and Chief Financial Officer of the Company and Corus Bank, N.A. | December 1, 1998 |
| Randy P. Curtis | 40 | Senior Vice President of Corus Bank N.A. | April 30, 1997 |
| Christopher Glancy | 45 | Senior Vice President of Corus Bank, N.A. | November 15, 1995 |
| Terrence W. Keenan | 53 | Senior Vice President of Corus Bank, N.A. | September 16, 1996 |
| Richard J. Koretz | 35 | Senior Vice President of Corus Bank, N.A. | November 15, 1995 |
| Joel C. Solomon | 44 | Senior Vice President of Corus Bank, N.A. | August 29, 1997 |





ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the material under the caption "Executive Compensation" on pages 10 through 18 of the 1999 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the material under the headings "Outstanding Voting Securities and Principal Shareholders" and "Election of Directors and Ownership of Shares" on pages 1 through 4, respectively, of the 1999 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated herein by reference to the material under the heading "Transactions with Management and Others" on page 20 of the 1999 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Exhibits to Consolidated Financial Statements:

(b) Reports on Form 8-K:

None.

(c) Exhibit: See exhibit filed herewith





EXHIBIT INDEX

(3a) Amended and Restated Articles of Incorporation is incorporated herein by reference to Exhibit 4.1 to the Form S-8 filing dated May 22, 1998;

(3b) By-Laws are incorporated herein by reference to Exhibit 4.2 to the Form S-8 filing dated May 22, 1998;

(10) Commercial Loan Officers Bonus Program is incorporated herein by reference to Form S-8 filing dated May 22, 1998;

(13) The portions of Registrant's 1998 Annual Report incorporated by reference into Part I or Part II of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998; and

(16) Letter regarding change in certifying accountant incorporated by reference to the Registrant's Annual Report on Form10-K for the year ended December 31, 1996.





SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

<TABLE>

| <S> | <C> | | <C> |
|---|---|---|---|
| Timothy H. Taylor | /s/ | Executive Vice President & Chief Financial Officer | March 26, 1999 |

</TABLE>

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>

| <S> | <C> | | <C> |
|---|---|---|---|
| Joseph C. Glickman | /s/ | Chairman of the Board of Directors | March 26, 1999 |
| Robert J. Glickman | /s/ | President, Chief Executive Officer & Director | March 26, 1999 |
| Timothy H. Taylor | /s/ | Executive Vice President & Chief Financial Officer | March 26, 1999 |
| Steven D. Fifield | /s/ | Director | March 26, 1999 |
| Karl H. Horn | /s/ | Director | March 26, 1999 |
| Michael Levitt | /s/ | Director | March 26, 1999 |

| | | | |
|---|---|---|---|
| Rodney D. Lubeznik | /s/ | Director | March 26, 1999 |
| Michael Tang | /s/ | Director | March 26, 1999 |
| William H. Wendt, III | /s/ | Director | March 26, 1999 |

</TABLE>





## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Corus Bankshares, Inc.:

We have audited the accompanying consolidated balance sheets of Corus Bankshares, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Corus Bankshares, Inc. and subsidiaries as of December 31, 1996 and for the year ended December 31, 1996, were audited by other auditors whose report dated January 10, 1997, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corus Bankshares, Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Chicago, Illinois
January 18, 1999





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Corus Bankshares, Inc.:

We have audited the accompanying consolidated balance sheet of Corus Bankshares, Inc. and subsidiaries as of December 31, 1996, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of Corus' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corus Bankshares, Inc. and subsidiaries at December 31, 1996, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Chicago, Illinois
January 10, 1997

<TABLE> <S> <C>

<ARTICLE> 9
<MULTIPLIER> 1,000

| <S> | <C> |
|---|---|
| <PERIOD-TYPE> | 12-MOS |
| <FISCAL-YEAR-END> | DEC-31-1998 |
| <PERIOD-END> | DEC-31-1998 |
| <CASH> | 72,050 |
| <INT-BEARING-DEPOSITS> | 13,000 |
| <FED-FUNDS-SOLD> | 2,000 |
| <TRADING-ASSETS> | 0 |
| <INVESTMENTS-HELD-FOR-SALE> | 897,688 |
| <INVESTMENTS-CARRYING> | 6,610 |
| <INVESTMENTS-MARKET> | 6,802 |
| <LOANS> | 1,551,587 |
| <ALLOWANCE> | 35,773 |
| <TOTAL-ASSETS> | 2,589,415 |
| <DEPOSITS> | 2,154,676 |
| <SHORT-TERM> | 24,933 |
| <LIABILITIES-OTHER> | 51,676 |
| <LONG-TERM> | 40,000 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 0 |
| <COMMON> | 727 |
| <OTHER-SE> | 317,403 |
| <TOTAL-LIABILITIES-AND-EQUITY> | 2,589,415 |
| <INTEREST-LOAN> | 149,924 |
| <INTEREST-INVEST> | 31,514 |
| <INTEREST-OTHER> | 6,087 |
| <INTEREST-TOTAL> | 187,525 |
| <INTEREST-DEPOSIT> | 86,641 |
| <INTEREST-EXPENSE> | 89,305 |
| <INTEREST-INCOME-NET> | 98,220 |
| <LOAN-LOSSES> | 10,000 |
| <SECURITIES-GAINS> | 4,919 |
| <EXPENSE-OTHER> | 51,889 |
| <INCOME-PRETAX> | 61,997 |
| <INCOME-PRE-EXTRAORDINARY> | 61,997 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 40,628 |
| <EPS-PRIMARY> | 2.79 |
| <EPS-DILUTED> | 2.75 |
| <YIELD-ACTUAL> | 4.33 |
| <LOANS-NON> | 5,307 |
| <LOANS-PAST> | 12,027 |
| <LOANS-TROUBLED> | 0 |

<LOANS-PROBLEM> 8,474
<ALLOWANCE-OPEN> 30,660
<CHARGE-OFFS> 6,852
<RECOVERIES> 1,965
<ALLOWANCE-CLOSE> 35,773
<ALLOWANCE-DOMESTIC> 35,773
<ALLOWANCE-FOREIGN> 0
<ALLOWANCE-UNALLOCATED> 0

</TABLE>