CIB MARINE BANCSHARES, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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CONTENTS

Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
CIB Marine Bancshares, Inc.
Brookfield, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CIB Marine Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, statements of stockholders' equity, and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIB Marine Bancshares, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Oak Brook, Illinois
February 8, 2021

CIB MARINE BANCSHARES, INC.
Consolidated Balance Sheets

	At December 31, 2020	At December 31, 2019
	(Dollars in thousands, except share data)	
Assets		
Cash and due from banks	$29,927	$8,970
Reverse repurchase agreements	–	11,196
Securities available for sale	106,014	117,972
Equity securities at fair value	2,478	2,426
Loans held for sale	42,977	16,928
Loans	539,227	513,705
Allowance for loan losses	(9,122)	(8,007)
Net loans	530,105	505,698
Federal Home Loan Bank stock	3,140	2,587
Premises and equipment, net	4,682	4,274
Accrued interest receivable	2,050	1,486
Deferred tax assets, net	16,292	20,069
Other real estate owned, net	1,875	2,396
Bank owned life insurance	4,802	4,691
Goodwill and other intangible assets, net	131	154
Other assets	6,509	4,944
Total assets	$750,982	$703,791
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	$92,544	$70,175
Interest-bearing demand	59,679	45,512
Savings	243,888	204,976
Time	190,262	209,527
Total deposits	586,373	530,190
Short-term borrowings	51,310	73,847
Accrued interest payable	246	603
Other liabilities	9,349	5,747
Total liabilities	647,278	610,387
Stockholders' Equity		
Preferred stock, $1 par value; 5,000,000 authorized shares; 7% fixed rate noncumulative perpetual issued shares; 40,690 and 40,888 of Series A; 3,201 and 3,217 of Series B convertible; aggregate liquidation preference-$44.1 million and $44.1 million, at December 31, 2020 and 2019, respectively	37,308	37,490
Common stock, $1 par value; 75,000,000 authorized shares;1,282,385 and 18,868,329 issued shares; 1,268,316 and 18,657,282 outstanding shares at December 31, 2020 and 2019, respectively	1,282	18,868
Capital surplus	179,188	161,175
Accumulated deficit	(115,569)	(123,753)
Accumulated other comprehensive income, net	2,029	158
Treasury stock 14,791 shares and 221,902 shares at cost at December 31, 2020 and 2019	(534)	(534)
Total stockholders' equity	103,704	93,404
Total liabilities and stockholders' equity	$750,982	$703,791

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Operations and Comprehensive Income

	Years Ended December 31, 2020	2019
	(Dollars in thousands, except per share data)	
Interest Income		
Loans	$22,874	$23,289
Loans held for sale	1,438	529
Securities	2,561	3,246
Other investments	123	884
Total interest income	26,996	27,948
Interest Expense		
Deposits	4,452	7,637
Borrowings	362	1,010
Total interest expense	4,814	8,647
Net interest income	22,182	19,301
Provision for loan losses	1,053	817
Net interest income after provision for loan losses	21,129	18,484
Noninterest Income		
Deposit service charges	364	377
Other service fees	129	102
Mortgage banking revenue, net	20,295	8,174
Other income	922	623
Net gains on sale of securities available for sale	—	—
Unrealized gains recognized on equity securities	53	71
Net gains on sale of assets	38	809
Total noninterest income	21,801	10,156
Noninterest Expense		
Compensation and employee benefits	24,216	18,142
Equipment	1,496	1,417
Occupancy and premises	1,709	1,773
Data processing	674	648
Federal deposit insurance	144	133
Professional services	1,024	865
Telephone and data communication	288	328
Insurance	229	234
Other expense	2,223	2,634
Total noninterest expense	32,003	26,174
Income from operations before income taxes	10,927	2,466
Income tax expense	2,743	423
Net income	8,184	2,043
Preferred stock dividends	—	—
Discount from repurchase of preferred stock	33	308
Net income allocated to common stockholders	$8,217	$2,351
Earnings Per Share (1)		
Basic Net income	$6.51	$1.92
Diluted Net income	$3.79	$1.08
Weighted average shares-basic (1)	1,262,279	1,227,111
Weighted average shares-diluted (1)	2,167,731	2,180,776
Net income	$8,184	$2,043
Other comprehensive income:		
Change in unrealized holding gains on securities available for sale, net of tax	1,877	1,918
Change in unrealized holding gains on securities available for sale for which a portion of OTTI has been recognized in earnings, net of reclassification, net of tax	(6)	(470)
Net realized gains on available for sale securities	—	—
Total other comprehensive income	1,871	1,448
Comprehensive income	$10,055	$3,491

(1) Common share data prior to September 14, 2020, is adjusted to reflect the 1:15 reverse split to allow for comparability between the pre- and post- reverse split periods.

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Stockholders' Equity

	Common Stock					Accumulated Other		
	Shares	Par Value	Preferred Stock	Capital Surplus	Accumulated Deficit	Comprehensive Income (Loss)	Treasury Stock	Total
	(Dollars in thousands, except share data)							
Balance at January 1, 2019	18,455,610	$18,456	$39,384	$160,815	$(125,796)	$(1,290)	$(534)	$91,035
Net income	—	—	—	—	2,043	—	—	2,043
Other comprehensive income	—	—	—	—	—	1,448	—	1,448
Total comprehensive income								3,491
Restricted stock awards vesting	412,719	412	—	(412)	—	—	—	—
Restricted stock awards employee pay-in capital	—	—	—	464	—	—	—	464
Preferred shares repurchased	—	—	(1,894)	308	—	—	—	(1,586)
Balance at December 31, 2019	18,868,329	$18,868	$37,490	$161,175	$(123,753)	$158	$(534)	$93,404
Net income	—	—	—	—	8,184	—	—	8,184
Other comprehensive income	—	—	—	—	—	1,871	—	1,871
Total comprehensive income								10,055
Reverse stock split 1 for 15	(17,957,550)	(17,957)	—	17,948	—	—	—	(9)
Restricted stock awards vesting	371,606	371	—	(371)	—	—	—	—
Restricted stock awards employee pay-in capital	—	—	—	403	—	—	—	403
Preferred shares repurchased	—	—	(182)	33	—	—	—	(149)
Balance at December 31, 2020	1,282,385	$1,282	$37,308	$179,188	$(115,569)	$2,029	$(534)	$103,704

See accompanying Notes to Consolidated Financial Statements

CIB MARINE BANCSHARES, INC.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$8,184	$2,043
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred loan fee amortization	(137)	238
Depreciation and other amortization	2,501	1,516
Provision for loan losses	1,053	817
Mortgage banking revenue, net	(20,295)	(8,174)
Origination of mortgage loans held for sale	(520,066)	(273,985)
Proceeds from mortgage loans held for sale	512,854	269,655
Change in mortgage loans held for sale fair value	1,458	208
Originations of SBA loans held for sale	(5,790)	(9,834)
Proceeds from SBA loans held for sale	6,344	10,927
SBA gain on sale of loans held for sale	(524)	(1,150)
Change in deferred tax assets, net	3,777	1,353
Earnings from bank owned life insurance	(111)	(101)
Net gains on sale of assets, excluding loans held for sale	(176)	(27)
Net gains on sale of securities available for sale	—	—
Unrealized gain recognized on equity securities	(53)	(71)
Write down and losses on assets, excluding loans held for sale	662	368
Decrease (increase) in interest receivable and other assets	(4,219)	574
Increase in accrued interest payable and other liabilities	4,324	711
Net cash used in operating activities	(10,214)	(4,932)
Cash Flows from Investing Activities		
Net decrease in reverse repurchase agreements	11,196	47,466
Maturities of securities available for sale	1,002	641
Purchase of securities available for sale	(3,338)	(3,595)
Proceeds from sale of securities available for sale	—	—
Repayments of asset and mortgage-backed securities available for sale	26,318	22,272
Purchase of mortgage-backed securities available for sale	(10,182)	(17,508)
Proceeds from sale of mortgage-backed securities available for sale	—	—
Net decrease in other investments	96	326
Decrease (increase) in FHLB and other stock	(553)	585
Net increase in loans	(26,088)	(24,009)
Proceeds from sales of other real estate owned	333	27
Premises and equipment expenditures	(982)	(619)
Net cash provided by (used in) investing activities	(2,198)	25,586
Cash Flows from Financing Activities		
Increase (decrease) in deposits, net of broker fee amortization	56,088	(6,775)
Redemption of preferred stock	(173)	(5,083)
Reverse stock split 1 for 15 fractional shares payment	(9)	—
Net decrease in short-term borrowings	(22,537)	(12,863)
Net cash provided by (used in) financing activities	33,369	(24,721)
Net increase (decrease) in cash and cash equivalents	20,957	(4,067)
Cash and cash equivalents, beginning of year	8,970	13,037
Cash and cash equivalents, end of year	$29,927	$8,970
Supplemental Cash Flow Information		
Transfer of loans to other real estate owned	$232	$—
Right-of-use assets and offsetting lease liability	—	2,836
Cash paid (received) during the year for:		
Interest expense	$5,171	$8,754
Income taxes received	(389)	(411)

See accompanying Notes to Consolidated Financial Statements

Note 1-Significant Accounting Policies

Nature of Operations

CIB Marine Bancshares, Inc. ("CIB Marine") is a financial services holding company which provides a full range of banking and related services through its banking subsidiary, CIBM Bank, and one non-bank subsidiary that holds legacy loan and other real estate owned being collected. References to "CIB Marine" include CIB Marine's subsidiaries unless otherwise specified. The primary sources of revenue are predominantly from loans to small and middle-market business customers, investments in securities, and mortgage banking activity. CIBM Bank also offers a range of deposit and other financial products to its customers. Its offices and, generally, customers are located in the central and northeastern Illinois, Milwaukee, and Indianapolis markets.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of CIB Marine and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The accompanying audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States ("U.S."). References to GAAP as promulgated by the Financial Accounting Standards Board ("FASB") are made according to sections of the Accounting Standards Codification ("ASC") and to Accounting Standards Updates ("ASU").

Subsequent Events

CIB Marine has evaluated subsequent events for recognition and disclosure through February 8, 2021, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including the allowance for loan losses, valuation of investments and impairment, if any, other real estate owned and disclosure of contingent assets and liabilities, as applicable, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates used in the preparation of the consolidated financial statements are based on various factors, including the current interest rate environment, value of collateral securing loans and investments, assessed probabilities of default of obligors in loans and investment securities, recent sales of investments in the marketplace, recent sales and conditions in real estate markets, and economic conditions, both locally and nationally. Changes in these factors can significantly affect CIB Marine's net interest income, noninterest income, and noninterest expense and the value of its recorded assets and liabilities and such changes could be material.

A strain of the Coronavirus has spread around the world with resulting economic and social disruption. The Coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The Company's operating area experienced periodic closures of business, restrictions on personal contact, and requests by government officials to stay in isolation. The operations and business results of the Company could be materially adversely effected. Significant estimates as disclosed in Note 1, including the allowance for loan losses, valuation of securities and realization of deferred tax assets may be materially adversely impacted by national and local events designed to contain the Coronavirus. Refer to Note 4 for COVID-19 related loan information.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which is also recognized as a separate component of equity.

Cash Flows

For purposes of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing deposits in other financial institutions, reverse repurchase agreements, short-term Federal Home Loan Bank ("FHLB") borrowings, and federal funds purchased and repurchase agreements.

Reverse Repurchase Agreements

Reverse repurchase agreements are transactions where CIB Marine buys U.S. government guaranteed portions of SBA 7(a) loans or loan pools at a market price with an agreement to sell the asset at a future date. An excess margin of 3% in SBA 7(a) loan assets or cash is maintained over the amount purchased. The assets are held by a third party custodian. Reverse repurchase transactions are carried at cost plus accrued interest.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are recorded at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights released to the investor. The carrying value of the mortgage loans held for sale includes the value of the servicing rights. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carry value of the related loan sold.

CIB Marine originates loans approved under the Small Business Administration 7(a) loan program ("SBA 7(a) loans"). SBA 7(a) loans originated and intended for sale in the secondary market that have been fully funded are recorded at fair value as of each balance sheet date. The fair value is for the government guaranteed portion of the loan. SBA 7(a) loans are sold with servicing retained by CIB Marine.

Other loans held for sale are carried at the lower of cost or fair value, determined on an individual loan basis. When a loan is transferred to held for sale, the loan's carrying value is compared to its fair value and any shortfall in value is recorded as a charge-off to the allowance for loan losses. All subsequent net declines in fair value of loans held for sale are recorded to noninterest expense. In the event that loans held for sale are reclassified to loans held in portfolio, the loans are transferred at lower of cost or fair value on the date of transfer, forming the new cost basis of such loans. The cash proceeds from the sale of loans that were reclassified from loans held in portfolio to loans held for sale are classified as investing activities in the Consolidated Statements of Cash Flows. Loans are generally sold with servicing rights released.

Investment Securities

Available for sale securities consist of bonds, notes and other debt securities not classified as held to maturity securities or trading securities. Available for sale securities are carried at fair value with unrealized net gains and losses reported in accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis and more frequently when economic or market conditions warrant. CIB Marine evaluates securities in its portfolio for credit related OTTI by estimating discounted cash flows and comparing them to the amortized cost of each respective security. In evaluating OTTI, CIB Marine's management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether or not CIB Marine intends to sell or it is more likely than not CIB Marine will be required to sell the security prior to a period of time sufficient to allow for any anticipated recovery of fair value, and other factors as detailed in Note 3-Investment Securities. OTTI on securities related to credit losses or based on other factors where CIB Marine lacks the intent or ability to hold the security for a period of time sufficient to allow for an anticipated recovery, is included in noninterest income. OTTI on securities related to other factors but where CIB Marine has both the intent and ability to hold the security for a period of time sufficient to allow for an anticipated recovery is recorded in other comprehensive income (loss).

Realized net gains or losses on securities sales (using specific identification method) and declines in fair value below the amortized costs judged to be other-than-temporary are included in noninterest income as appropriate.

The amortized cost of available for sale securities is adjusted for amortization of premiums and accretion of discounts to the call date for callable securities and over the estimated remaining life of the security for others. Such amortization is calculated using the level-yield method, adjusted for prepayments on mortgage-backed securities, and is included in interest income from investments.

Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Loans

Loans that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, increased by costs to originate loans and premiums paid on purchased loans, and reduced by net deferred fees and an allowance for loan losses. The accrual of interest on all classes of loans is generally discontinued when a loan becomes 90 days or more delinquent in accordance with the loan’s contractual terms unless the credit is well secured and in process of collection. All classes of loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered by management to be doubtful. Unpaid interest that has previously been recorded as income is written off against interest income when a loan is placed on nonaccrual. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest payments received on loans which are on nonaccrual are generally applied to reduce the loan principal. Loans are returned to accrual status once a borrower has demonstrated repayment performance on the contractual schedule for a period of six consecutive months and the expectation is that contractual payments will continue to be made during the remaining term of the loan.

Loan origination fees are deferred and certain direct origination costs are capitalized. The amounts deferred and capitalized, as well as premiums on purchased loans, are included in the carrying amount of the loans and amortized over the estimated life of the loans as an adjustment of the yield of the related loan. Amortization of deferred loan fees and costs ceases when a loan is placed on nonaccrual. Fees for loans sold and other loan fees are included in the net gain or loss recognized on the sale.

Management considers a loan to be impaired when it is probable that CIB Marine will be unable to collect all amounts due according to the original contractual terms of the note agreement, including both principal and interest.

A loan is accounted for as a troubled debt restructure (“TDR”) when a concession is granted to a borrower for economic or legal reasons related to the borrower’s financial difficulties that would not otherwise be considered. CIB Marine may restructure the loan by modifying the terms to reduce or defer cash payments required by the borrower, reduce the interest rate below current market rates for new debt with similar risk, reduce the face amount of the debt, or reduce the accrued interest. CIB Marine may utilize a multiple note structure as a workout alternative for certain commercial loans. The multiple note structure restructures a troubled loan into two notes, where the first note is reasonably assured of repayment and performance according to prudently modified terms, and the portion of the troubled loan that is not reasonably assured of repayment is generally charged-off. TDRs on nonaccrual status generally remain on nonaccrual status until the borrower’s financial condition supports the debt service requirements and at least a six-month payment history is sustained and, in some cases, a longer period is required. Once this assurance is reached the TDR is classified as a restructured accruing loan.

Factors considered by management in determining if a loan is impaired include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment records and the amount of the shortfall in relation to the principal and interest owed. Commercial, commercial real estate, and construction and development (collectively referred to as the “Commercial Segments”) nonaccrual loans greater than $250,000; all TDR loans; substandard and doubtful loans; and all 90 days past due still accruing loans are individually evaluated to determine if impaired each quarter and if impaired measure for impairment. Nonaccrual loans below the threshold are collectively evaluated as homogeneous pools.

Consumer-related TDR loans are individually evaluated at the present value of expected future cash flows discounted at the loan's effective interest rate. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, CIB Marine generally does not separately identify individual residential real estate, home equity or other consumer loans (collectively referred to as the "Consumer Segments") under $250,000 for impairment unless they are TDRs.

Allowance for Loan Losses

The allowance for loan losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as reasonably estimable probable incurred losses in the loan portfolio, and represents management's estimate of losses inherent in the portfolio that may be recognized from loans that are not recoverable. The allowance for loan losses is established through a provision for loan losses charged to expense. Losses are charged against the allowance when management believes that the collectability of the principal amount is confirmed and where loans are transferred to loans held for sale at an amount less than the original carrying balance. Recoveries of amounts previously charged-off are credited to the allowance. A provision for (reversal of) loan losses, which is a charge against (credit to) earnings, is recorded to bring the allowance for loan losses to a level that, in management's judgment, is appropriate to absorb reasonably estimated probable incurred losses in the loan portfolio in accordance with U.S. GAAP. Any changes in impairment on loans, including loans evaluated based on the present value of cash flow, are charged against the allowance for loan losses or as an additional provision for loan losses. The provision for loan losses excludes the expense for probable incurred losses on unfunded loan commitments and standby letters of credit. Estimated losses on unfunded loan commitments and standby letters of credit are accrued and included in other liabilities. See also Note 4-Loans and Allowance for Loan Losses for additional discussion.

Consistent with regulatory guidelines and its loan policy, CIB Marine charges-off certain amounts of commercial, commercial real estate, construction and development, residential real estate, home equity, and other consumer loans when available information confirms that specific amounts of the loans are uncollectible. Information that may be used in determining the uncollectible nature of a loan includes, but is not limited to, the deteriorating financial condition of the borrower, declining collateral values, and/or legal action, including bankruptcy, that impairs the borrower's ability to meet its obligations. For loans in CIBM Bank's purchased home equity pools, 100% of the outstanding principal balance of each loan in the pool is charged-off when a loan becomes 90 days past due.

Unpaid principal balance represents contractual principal amounts due to CIB Marine. Recorded investments is unpaid principal balances less previously recorded charges-offs and excludes accrued interest and deferred loan costs. At December 31, 2020, accrued interest receivable was $1.7 million and deferred loan fee was $0.2 million compared to accrued interest receivable of $1.0 million and deferred loan cost of $0.5 million at December 31, 2019.

An estimate of the amount of the balance of an impaired loan is assigned as a specific reserve to the loan based on the estimated present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral less costs to sell. For the Commercial Segments, loans which are not individually evaluated or are individually evaluated but found not to be impaired, CIB Marine makes estimates of losses for groups of loans. Loans are grouped by similar characteristics, including the type of loan, the assigned credit risk grade and the general collateral type. A loss rate reflecting the probable incurred losses in a group of loans is derived based upon estimates of expected loss rates for each group in part based upon CIB Marine's loss history and related migration analysis. The methodologies used to estimate the allowance for loan losses depend upon the impairment status and portfolio segment of the loan and utilize various migration analyses which generally consider historical loss experience for periods over the previous six to more than sixty months. The credit quality indicators discussed subsequently are based on this credit risk grading system. CIB Marine creates groupings of these grades for each loan class and calculates historic loss rates using the most recent two-, three- and five-year moving averages of net charge-offs. Additionally, CIB Marine uses longer-term loss experience in its migration analysis that ultimately covers more than 15 years of historical charge-offs.

The resulting estimate of the quantitatively derived reserve level for each segment using historical loss experience is then reviewed and adjusted using qualitative criteria including: borrower and industry concentrations; levels and trends in delinquencies; charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience and ability of lending management; national and local economic conditions affecting interest rates; government spending; production; unemployment; industry conditions; effects of change in credit concentrations; off-balance sheet positions; real estate values; and vacancy rates for residential and commercial properties. The changes in these factors are then reviewed to ensure that changes in the allowance for loan loss reserve level are consistent with changes in these factors. The magnitude of the impact of each of these factors on the qualitative assessment of the reserve level changes from quarter to quarter according to the extent that these factors are already reflected in historic loss rates and according to the extent these factors diverge from one another. Consideration of the uncertainty inherent in the estimation process is also provided when evaluating the allowance for loan losses. The amount of the estimated impairment for individually evaluated loans and the estimate for collectively evaluated loans are added together for a total estimate of the allowance for loan losses.

Management considers the following when assessing the risk in the loan portfolio:

- Commercial loans are dependent on the condition of the industries of the related borrowers and the strength of their businesses. Commercial loans are typically advances for equipment purchases or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment, or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans and periodically obtained during the life of the loan.

- Commercial real estate loans and construction development loans are dependent on the industries tied to these loans, the local commercial real estate market, and other relevant factors like the local labor markets. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

- Residential real estate and home equity loans are loans secured with a mortgage on a residential property. These loans may be affected by the local residential real estate market, the labor markets in the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, CIBM Bank evaluates the borrower's repayment ability through a review of credit scores, debt to income ratios, and other relevant factors. Appraisals are obtained to support the loan amount.

- Consumer loans are affected by labor markets in the local economy. The loans may be unsecured or secured by various assets including automobiles, equity investments, deposits, and other eligible collateral. At the time of origination, borrower credit worthiness is evaluated using the borrower's credit score, debt to income ratio, and other relevant factors.

SBA and Fannie Mae Loans Servicing Rights

When loans guaranteed by the Small Business Administration ("SBA") are sold with servicing retained, and when mortgage loans are originated and sold to Fannie Mae, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance for each loan, as applicable, to the extent that fair value is less than the carrying amount. If CIB Marine later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with other income on the income statement and for the years ended December 31, 2020 and 2019 were $39,000 and $25,000, respectively. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income from SBA and Fannie Mae loans, which are reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of SBA servicing rights and impairments are netted against loan servicing fee income. Servicing fees for the years ended December 31, 2020 and 2019 were $148,000 and $130,000, respectively. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed primarily using the straight-line method. Maintenance and repairs are charged to expense as incurred, while renewals and betterments are capitalized. Estimated useful lives of assets are 39 years for buildings and 3 to 10 years for furniture and equipment. Leasehold improvements included in premises and equipment are amortized over the shorter of the useful life of the improvements or the term of the lease.

Other Real Estate Owned

Other real estate owned ("OREO") includes assets that have been received in satisfaction of debt. OREO is transferred at fair value less selling costs and subsequently measured for impairment. Any valuation adjustments required at the date of transfer to OREO are charged to the allowance for loan losses. OREO income in the consolidated statements of operations includes rental income from properties and gains on sales. Property expenses, which include carrying costs, required valuation adjustments, and losses on sales are reported as expenses in the consolidated statements of operations.

Federal Home Loan Bank ("FHLB") Stock

CIBM Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance

CIBM Bank has purchased life insurance policies on certain current and former key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Intangible Assets

The excess of the cost of an acquisition over the fair value of the net assets acquired consists primarily of goodwill and other identifiable intangibles (primarily related to customer relationships acquired). The other intangibles have estimated finite lives and are amortized on an accelerated basis to expense over their weighted average life (an original weighted average life of 10 years and a remaining weighted average life of 2.9 years for 2020). CIB Marine reviews long-lived assets and certain identifiable intangibles for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in which case an impairment charge would be recorded. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis. In addition, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Any impairment of goodwill or other intangibles will be recognized as an expense in the period of impairment. CIB Marine completes its annual goodwill impairment test as of December 31 of each year. Note 8-Goodwill and Intangible Assets includes a summary of CIB Marine's goodwill and other intangibles.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. With regard to restricted stock awards, the market price as represented in the OTCQB market is used to estimate the fair value of the CIB Marine's common stock at the date of grant.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with step vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. Estimated future forfeitures are not factored into compensation costs, rather they are recognized as they occur.

The restricted stock awards are classified as equity and forfeitures are accounted for when they occur. Excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized as income tax expense or benefit in the income statement.

Income Taxes

Deferred income taxes are provided for temporary differences between the amounts reported for assets and liabilities for financial statement purposes and their tax basis. Deferred tax assets are recognized for temporary differences that are expected to be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns.

CIB Marine and its subsidiaries file a consolidated federal income tax return and unitary, combined and separate state tax returns where required. CIB Marine has entered into tax allocation agreements with its subsidiary entities included in the consolidated U.S. federal and unitary or combined state income tax returns, including U.S. operations of companies held for sale or disposal. These agreements govern the timing and amount of income tax payments required by the various entities.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense (benefit).

CIB Marine provides for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. CIB Marine recognizes any interest and penalties related to unrecognized tax benefits in the provision for income tax. CIB Marine management believes the amount is immaterial at December 31, 2020 and 2019.

Retirement and Other Benefit Plans

Employee 401(k) expenses are presented in the income statement in compensation and employee benefits at the amount of matching contributions. Supplemental Employee Retirement Plan ("SERP") expense allocates the benefits over years of service.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed by dividing net income (loss) allocated to common stockholders by the weighted average number of shares outstanding during the periods. Shares-based payment awards including unvested awards of restricted stock are forfeitable and have forfeitable dividends and are excluded from the basic earnings (loss) per common share calculation. Diluted earnings (loss) per common share is computed by dividing net income (loss) allocated to common stockholders by the weighted average number of common shares adjusted for the dilutive effect of the weighted average of outstanding unexercised stock options, unvested restricted stock awards, and the potential conversion of Series B preferred stock. The dilutive effect of unvested restricted stock awards, if any, is computed using the treasury stock method. Unvested restricted stock awards, and conversion rights of the Series B preferred stock, have been deemed antidilutive (i.e. are not included in the earnings (loss) per share calculation).

Reverse Split of Common Stock
A 1-for-15 reverse split of our common stock was completed effective September 14, 2020. Post-split fractional shares at the shareholder level were paid out at a price of $15.75 per share. The total payout for fractional shares was nominal.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from CIB Marine, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and CIB Marine does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Derivative and Hedging Activities

CIB Marine uses certain derivative financial instruments to help manage its risk or exposure to changes in interest rates. All derivatives are recognized on the balance sheet at their fair value. On the date a derivative contract is entered into, CIB Marine designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("Fair-Value Hedge"), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("Cash-Flow Hedge"), or (3) an instrument with no hedging designation ("Stand-Alone Derivative"). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a Fair-Value Hedge, along with the loss or gain on the corresponding hedged asset or liability (including losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a Cash-Flow Hedge are recorded in other comprehensive income until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable rate asset or liability are recorded in earnings). Changes in the fair value of derivative trading instruments that do not qualify for hedge accounting are reported in current period earnings as non-interest income.

At the time the hedging instrument is entered into, CIB Marine formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as Fair-Value Hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. CIB Marine formally assesses, for all hedges, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions will be or have been highly effective in offsetting changes in fair values of hedged items and whether they are expected to continue to be highly effective in the future.

CIB Marine discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is designated as a hedge instrument because it is unlikely that a forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designation of the derivative as a hedge instrument is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a Fair Value Hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

CIB Marine entered into interest rate swaps to hedge changes in the fair value of certain loans attributable to changes in market interest rates. CIB Marine primarily used interest rate swaps that effectively converted the fixed rate on the financial instruments to a floating rate. These interest rate swaps have been designated as Fair Value Hedges.

CIB Marine enters into commitments, known as interest rate lock commitments ("IRLC"), to originate loans whereby the interest rate on the loan is determined prior to funding. IRLCs on residential mortgage loans that are intended for sale are considered to be derivatives. Therefore, they are recorded at fair value with changes in fair value recorded in mortgage banking revenue. CIB Marine estimates the fair value of an IRLC based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the IRLC. The fair value of the underlying mortgage loan is based on quoted mortgage-backed security prices. Closing ratios derived using CIB Marine's recent historical empirical data are utilized to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs. IRLCs expose CIB Marine to interest rate risk, which CIB Marine manages by entering into one of two different types of forward commitments. The first is contingent on the closing of the mortgage loan and is called a Best Efforts Contract ("BE"). The second type used for IRLC and loans held for sale ("LHFS") that are not under a BE but are intended to be originated with the purpose of selling them is referred to as a To Be Announced Mortgage Backed Security ("TBA"). The BEs and TBAs are also derivatives recorded at fair value based on the prices of TBAs with similar or same terms trading in the market with changes in their fair value reported in revenues from mortgage loans. The cash flows from these BEs and TBAs are classified in operating activities in the Consolidated Statement of Cash Flows. Residential mortgage loans originated and sold to investors are sold either under a BE or a mandatory sale arrangement. The former is committed to at the time the IRLC is executed but the related loan is only required to be delivered if the loan actually closes, and the latter is negotiated with an investor for the loan after the loan is closed and represents a firm commitment to deliver the loan to the purchasing investor. All of the mortgage banking derivatives are recorded as Stand-Alone Derivatives with no hedging designation.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments

CIB Marine's reportable segments are comprised of strategic business units primarily based upon industry categories and, to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing, as well as organizational structure. CIB Marine's segment reporting is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy, and allocate resources. CIB Marine's chief operating decision maker is its Chief Executive Officer. The mortgage segment includes the operations of the mortgage division of CIBM Bank with revenue derived from residential real estate loan originations and sales. The banking segment includes the operations of CIBM Bank and CIB Marine Capital, LLC. The banking segment derives its revenue principally from investments in interest-earning assets as well as noninterest income typical for the banking industry. The corporate segment includes the holding company's financing and investment activities, and management and administrative expenses to support the operations of the holding company. Disaggregated information at the branch level is not presented since results are generally similar and aggregated into the respective banking, mortgage and other segments for appropriate representation.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Such expenses are included in noninterest expense. Legal fees related to the defense of litigation are recognized as incurred.

Adoption of New Accounting Standards

On January 1, 2019, CIB Marine adopted the new accounting standard for leases, which requires CIB Marine to recognize most leases on the balance sheet. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $2.9 million, and operating lease liabilities of $2.9 million as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using CIB Marine's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the consolidated income statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about CIB Marine's leasing activities are presented in Note 6-Leases.

On January 1, 2019, CIB Marine adopted the new accounting standard for premium amortization of purchased callable debt securities. The standard amends the amortization period for certain purchased callable debt securities held at a premium by shortening the amortization period for the premium to the earliest call date. Implementation is on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. CIB Marine has limited callable securities. The effect on the current reporting results was immaterial.

Note 2-Cash and Due from Banks

There was no reserve requirement at December 31, 2020 and 2019.

Note 3-Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of available for sale securities at December 31, 2020 and 2019 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
December 31, 2020				
U.S. government agencies	$6,202	$—	$(82)	$6,120
States and political subdivisions	22,973	1,407	(2)	24,378
Trust preferred collateralized debt obligations	5,255	—	(1,478)	3,777
Other debt obligation	150	—	—	150
Asset backed securities	3,096	2	(56)	3,042
Residential mortgage-backed securities (agencies)	65,575	2,986	(14)	68,547
Total securities available for sale	$103,251	$4,395	$(1,632)	$106,014
December 31, 2019				
U.S. government agencies	$7,697	$—	$(106)	$7,591
States and political subdivisions	20,694	439	(39)	21,094
Trust preferred collateralized debt obligations	5,349	26	(1,286)	4,089
Other debt obligation	150	—	—	150
Asset backed securities	3,658	—	(51)	3,607
Residential mortgage-backed securities (agencies)	80,209	1,375	(143)	81,441
Total securities available for sale	$117,757	$1,840	$(1,625)	$117,972

Securities available for sale with a carrying value of $54.8 million and $41.5 million at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, repurchase agreements, Federal Reserve Discount Window advances, letter of credit guidance facilities, interest rate swaps based on required amounts specified in agreements with counterparties, and for other purposes as required or permitted by law.

The amortized cost and fair value of available for sale securities at December 31, 2020, by contractual maturity are shown below. Certain securities, other than mortgage-backed securities, may be called earlier than their maturity date. Expected maturities may differ from contractual maturities in mortgage-backed securities, because certain mortgages may be prepaid without penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following contractual maturity schedule.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	$1,688	$1,696
Due after one year through five years	11,069	11,631
Due after five years through ten years	10,044	10,692
Due after ten years	11,779	10,406
	34,580	34,425
Residential mortgage-backed securities (agencies)	65,575	68,547
Asset backed securities	3,096	3,042
Total securities available for sale	$103,251	$106,014

The following tables represent gross unrealized losses and the related fair value of available for sale securities aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	Less than 12 Months in an Unrealized Loss Position		12 Months or Longer in an Unrealized Loss Position		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
December 31, 2020						
U.S. government agencies	$—	$—	$6,120	$(82)	$6,120	$(82)
States and political subdivisions	503	(2)	—	—	503	(2)
Trust preferred collateralized debt obligations	—	—	3,777	(1,478)	3,777	(1,478)
Asset-backed securities	—	—	2,656	(56)	2,656	(56)
Residential mortgage-backed securities (agencies)	5,481	(14)	—	—	5,481	(14)
Total securities with unrealized losses	$5,984	$(16)	$12,553	$(1,616)	$18,537	$(1,632)
Securities without unrealized losses					87,477	
Total securities					$106,014	
December 31, 2019						
U.S. government agencies	$1,612	$(9)	$5,979	$(97)	$7,591	$(106)
States and political subdivisions	4,987	(29)	1,611	(10)	6,598	(39)
Trust preferred collateralized debt obligations	—	—	3,135	(1,286)	3,135	(1,286)
Asset-backed securities	591	—	3,016	(51)	3,607	(51)
Residential mortgage-backed securities (agencies)	12,263	(97)	9,152	(46)	21,415	(143)
Total securities with unrealized losses	$19,453	$(135)	$22,893	$(1,490)	$42,346	$(1,625)
Securities without unrealized losses					75,626	
Total securities					$117,972	

Net unrealized gains on investment securities were $2.8 million at December 31, 2020 and $0.2 million at December 31, 2019. At December 31, 2020, trust preferred collateralized debt obligations (“TPCDOs”) accounted for $1.5 million in net unrealized losses and the remaining securities had net unrealized gains of $4.2 million.

States and Political Subdivisions (“Municipal Securities”). At December 31, 2020, for those Municipal Securities rated by nationally recognized statistical rating agencies, all were rated investment grade. At December 31, 2019, all were rated investment grade except one limited tax general obligation bond issued by the City of Detroit, Michigan, issued in 2005 with a final maturity date of October 1, 2020. The security, supported by a financial guarantee from Ambac Assurance Corporation, paid off in full in 2020. CIB Marine does not intend to sell, nor is it more likely than not that it will be required to sell, any of its Municipal Securities before recovery of their amortized cost bases, which may be maturity, and CIB Marine does not expect a credit loss. As a result, CIB Marine has not recognized any credit or non-credit related OTTI on its Municipal Securities.

Trust Preferred Collateralized Debt Obligations. At December 31, 2020, CIB Marine held three TPCDOs of $5.6 million par value with an amortized cost of $5.3 million and fair value of $3.8 million. To a limited extent, these securities are protected against credit loss by credit enhancements, such as over-collateralization and subordinated securities. Unless they are the most senior class security in the structure, however, they also may be subordinated to more senior classes as identified later in this section. All the TPCDOs have collateral pools and are not single-issuer securities. Preferred Term Securities, LTD (“PreTSLs”) 27 A-1 and 28 A-1 are the most senior classes where all other classes issued in the pools are subordinated to them, and PreTSL 26 B-1 is a mezzanine or subordinated class - but not the most deeply subordinated class of securities in the pools.

For TPCDO security PreTSL 26 B-1, CIB Marine had recorded $0.1 million credit-related OTTI and placed it on nonaccrual status prior to 2011. There has been no new credit-related OTTI for this security during 2020 or 2019. Deterioration in the financial industry could result in additional OTTI related to credit loss that would be recognized through a reduction in earnings. PreTSL 26 B-1’s unrealized loss is $1.3 million at December 31, 2020, largely due to prior deferrals and defaults, related deteriorations in the credit quality of many of the issuers represented in the collateral pools, and high liquidity premiums for securities of this type and quality. The unrealized losses for PreTSL 26 B-1 were unchanged from December 31, 2019. For CIB Marine’s holdings in PreTSL 26 B-1, the deferrals and defaults of issuers in the collateral pools had risen to a level that holders of those securities began receiving “payments-in-kind” (“PIK”) at the June 2009 payment date. However, during 2013, CIB Marine’s PreTSL 26 B-1 security began receiving principal and interest payments again and placed back on accrual status. The TPCDOs were performing as to full and timely payments throughout 2019, 2020, and at December 31, 2020.

CIB Marine evaluates securities in its portfolio for credit-related OTTI by evaluating estimated discounted cash flows and comparing this to the current amortized cost of each respective security. When the estimated discounted cash flows are less than the current amortized cost of a security, a credit-related OTTI charge is recognized through earnings. To determine whether or not OTTI is evident in the TPCDOs, projected cash flows are discounted using the Index Rate plus the original discount margin. The Index Rate for each security is the three-month U.S. dollar LIBOR. The discount rates are as follows: LIBOR + 0.56% for PreTSL 26 B-1, LIBOR + 0.30% for PreTSL 27 A-1 and LIBOR + 0.90% for PreTSL 28 A-1. Other key assumptions used in deriving cash flows for the pool of collateral for determining whether OTTI exists include default rate scenarios with annualized default rate vector of 0.25% per annum over the remaining life; loss severity rates of approximately 85%, or a recovery rate of 15%; and prepayment speeds of approximately 1% per annum. All current defaults are applied a loss severity of 100%, or a recovery rate of 0%; all current deferrals are applied a loss severity of 85%, or a recovery rate of 15%, with a two to five year recovery lag; and all future deferral or default events are considered to be defaults with a two year recovery lag and loss severity of 85%, or a recovery rate of 15%.

Additional information related to the TPCDOs and related OTTI as of December 31, 2020, is provided in the table below:

	PreTSL 26	PreTSL 27	PreTSL 28
	(Dollars in thousands)		
Class	B-1	A-1	A-1
Seniority	Mezzanine	Senior	Senior
Amortized cost	$3,430	$953	$872
Fair value	$2,163	$825	$789
Unrealized loss	$(1,267)	$(128)	$(83)
Total credit-related OTTI recognized in earnings (1)	$(103)	$—	$—
Moody's /S&P /Fitch Ratings	Baa3/NR/B	Aa21/NR/A	Aa1/NR/A
Percent of current deferrals and defaults to total collateral balances	18%	19%	15%
Percent of excess subordination to performing collateral (2)	25%	59%	64%

(1) Total OTTI recognized in earnings and AOCI reflect results since the acquisition date of the securities by CIB Marine, all of which was recognized prior to 2012.

(2) The excess subordination as a percentage of the remaining performing collateral is calculated by taking the difference of total current performing collateral less the current class balances of the applicable and senior classes divided by the total current performing collateral.

Residential Mortgage-Backed Securities ("Agency MBS"). At December 31, 2020 and 2019, approximately 61% and 67%, respectively, of the carrying value of Agency MBS held by CIB Marine were issued by U.S. government-sponsored entities, primarily Fannie Mae and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"), which the U.S. government has affirmed its commitment to support. The remainder were issued by Government National Mortgage Association ("GNMA" or "Ginnie Mae") and are explicitly backed by the full faith and credit of the U.S. government. At December 31, 2020 and 2019, $18.8 million of the $68.5 million and $23.2 million of the $81.4 million, respectively, in fair value of Agency MBS were issued to finance multifamily residential properties, commonly known as commercial mortgage-backed securities. CIB Marine does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery. As a result, CIB Marine does not consider these securities to be OTTI at December 31, 2020 and 2019.

Mutual Funds are the only securities affected by ASU 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities*. The fair value of the Mutual Fund, which is listed with the securities symbol of CRAIX, was $2.5 million and $2.4 million at December 31, 2020 and 2019, respectively, based on original purchases of $2.5 million in CRAIX in prior years. The unrealized recognized gains through income were $53,000 and $71,000 for the years ended December 31, 2020 and 2019, respectively. The Mutual Fund was purchased and is held for purposes of assisting in complying with the Community Reinvestment Act and consists mostly of long-term fixed income residential mortgage-backed securities issued by FNMA, FHLMC and GNMA (66%), taxable municipal securities (14%), and corporate bonds (9%),with the remainder in asset backed securities, money market instruments, tax-exempt municipal securities and U.S. Treasury securities. The Mutual Fund holdings are rated by S&P, Moody's, Fitch and/or Kroll rating agencies as follows: Where rated by more than one, the lower rating is represented.

Ratings of Mutual Fund Holdings	
Government/Agency	69.0%
AAA	3.6%
AA	14.3%
A	8.0%
Money Markets	4.7%
U.S. Treasury	0.4%

Roll Forward of OTTI Related to Credit Loss. There was no OTTI related to credit losses that has been recognized in earnings for which a portion of OTTI was recognized in AOCI for the years ended December 31, 2020 and 2019.

Note 4-Loans and Allowance for Loan Losses

Loans

The components of loans were as follows:

	At December 31, 2020		At December 31, 2019	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Commercial (1)	$70,608	13.1%	$44,415	8.7%
Commercial real estate	284,852	52.8	266,391	51.9
Construction and development	23,866	4.4	18,472	3.6
Residential real estate	141,223	26.2	157,788	30.7
Home equity	16,583	3.1	22,332	4.4
Purchased home equity pools	1,917	0.3	2,935	0.6
Other consumer	345	0.1	835	0.1
Gross loans	539,394	100.0%	513,168	100.0%
Deferred loan (fees) costs	(167)		537	
Loans	539,227		513,705	
Allowance for loan losses	(9,122)		(8,007)	
Loans, net	$530,105		$505,698	

(1) There was $31.9 million in outstanding principal balances of Paycheck Protection Program (PPP) loans at December 31, 2020. Original PPP deferred fees net of deferred costs totaled $1.2 million with $0.6 million remaining at December 31, 2020. Net fees of $0.6 million were accreted into commercial loan interest income during 2020.

CIB Marine serves the credit needs of its customers by offering a wide variety of loan programs, primarily in Wisconsin, Illinois and Indiana. For financial institutions, significant loan concentrations may occur when groups of borrowers have similar economic characteristics and are similarly affected by changes in economic or other conditions. At December 31, 2020 and 2019, significant concentrations exist in commercial real estate loans.

The following table presents the aging of the recorded investment in past due loans at December 31, 2020 and 2019:

	December 31, 2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
	(Dollars in thousands)					
Accruing Loans						
Commercial	$—	$—	$—	$—	$70,608	$70,608
Commercial real estate:						
Owner occupied	—	—	—	—	75,127	75,127
Non-owner occupied	—	—	—	—	209,489	209,489
Construction and development	—	—	—	—	23,866	23,866
Residential real estate:						
Owner occupied	1,073	—	—	1,073	127,256	128,329
Non-owner occupied	50	—	—	50	12,533	12,583
Home equity	14	70	—	84	15,796	15,880
Purchased home equity pools	29	—	—	29	1,888	1,917
Other consumer	—	—	—	—	345	345
Deferred loan fees	—	—	—	—	(167)	(167)
Total	$1,166	$70	$—	$1,236	$536,741	$537,977
Nonaccrual Loans (1)						
Commercial	$—	$—	$—	$—	$—	$—
Commercial real estate:						
Owner occupied	—	—	157	157	79	236
Non-owner occupied	—	—	—	—	—	—
Construction and development	—	—	—	—	—	—
Residential real estate:						
Owner occupied	—	—	13	13	298	311
Non-owner occupied	—	—	—	—	—	—
Home equity	—	—	80	80	623	703
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—
Deferred loan costs	—	—	—	—	—	—
Total	$—	$—	$250	$250	$1,000	$1,250
Total loans						
Commercial	$—	$—	$—	$—	$70,608	$70,608
Commercial real estate:						
Owner occupied	—	—	157	157	75,206	75,363
Non-owner occupied	—	—	—	—	209,489	209,489
Construction and development	—	—	—	—	23,866	23,866
Residential real estate:						
Owner occupied	1,073	—	13	1,086	127,554	128,640
Non-owner occupied	50	—	—	50	12,533	12,583
Home equity	14	70	80	164	16,419	16,583
Purchased home equity pools	29	—	—	29	1,888	1,917
Other consumer	—	—	—	—	345	345
Deferred loan fees	—	—	—	—	(167)	(167)
Total	$1,166	$70	$250	$1,486	$537,741	$539,227

(1) Nonaccrual loans that are not past due often represent loans with deep collateral depreciation and significantly deteriorated financial condition with weakened guarantors, where applicable, but borrowers who have been able to make payments or bring loans current.

	December 31, 2019					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
	(Dollars in thousands)					
Accruing Loans						
Commercial	$—	$—	$—	$—	$44,153	$44,153
Commercial real estate:						
Owner occupied	—	—	—	—	87,634	87,634
Non-owner occupied	—	—	—	—	174,473	174,473
Construction and development	18	—	—	18	18,428	18,446
Residential real estate:						
Owner occupied	733	234	42	1,009	144,844	145,853
Non-owner occupied	6	—	—	6	11,504	11,510
Home equity	678	90	—	768	20,969	21,737
Purchased home equity pools	—	—	—	—	2,935	2,935
Other consumer	1	—	—	1	834	835
Deferred loan costs	2	—	—	2	535	537
Total	$1,438	$324	$42	$1,804	$506,309	$508,113
Nonaccrual Loans (1)						
Commercial	$—	$—	$262	262	$—	$262
Commercial real estate:						
Owner occupied	—	—	440	440	—	440
Non-owner occupied	—	—	3,844	3,844	—	3,844
Construction and development	—	—	26	26	—	26
Residential real estate:						
Owner occupied	114	63	—	177	248	425
Non-owner occupied	—	—	—	—	—	—
Home equity	32	30	29	91	504	595
Purchased home equity pools	—	—	—	—	—	—
Other consumer	—	—	—	—	—	—
Deferred loan costs	—	—	—	—	—	—
Total	$146	$93	$4,601	$4,840	$752	$5,592
Total loans						
Commercial	$—	$—	$262	$262	$44,153	$44,415
Commercial real estate:						
Owner occupied	—	—	440	440	87,634	88,074
Non-owner occupied	—	—	3,844	3,844	174,473	178,317
Construction and development	18	—	26	44	18,428	18,472
Residential real estate:						
Owner occupied	847	297	42	1,186	145,092	146,278
Non-owner occupied	6	—	—	6	11,504	11,510
Home equity	710	120	29	859	21,473	22,332
Purchased home equity pools	—	—	—	—	2,935	2,935
Other consumer	1	—	—	1	834	835
Deferred loan costs	2	—	—	2	535	537
Total	$1,584	$417	$4,643	$6,644	$507,061	$513,705

(1) Nonaccrual loans that are not past due often represent loans with deep collateral depreciation and significantly deteriorated financial condition with weakened guarantors, where applicable, but borrowers who have been able to make payments or bring loans current.

The following table lists information on nonaccrual, restructured and certain past due loans:

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Nonaccrual-loans	$1,250	$5,592
Nonaccrual-loans held for sale	—	—
Restructured loans accruing	916	1,473
90 days or more past due and still accruing-loans	—	42

The following table presents the recorded investment by class of loans in nonaccrual and loans past due over 90 days and still accruing:

	At December 31, 2020	2019	2020	2019
	Nonaccrual		Loans Past Due Over 90 Days on Accrual	
	(Dollars in thousands)			
Commercial	$—	$262	$—	$—
Commercial real estate:				
Owner occupied	236	440	—	—
Non-owner occupied	—	3,844	—	—
Construction and development	—	26	—	—
Residential real estate:			—	—
Owner occupied	311	425	—	42
Non-owner occupied	—	—	—	—
Home equity	703	595	—	—
Total	$1,250	$5,592	$—	$42

The following table presents loans individually evaluated for impairment by class of loans at and for the years ended December 31, 2020 and 2019:

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
December 31, 2020					
With no related allowance:					
Commercial	$—	$—	$—	$—	$—
Commercial real estate:					
Owner occupied	—	—	—	—	—
Non-owner occupied	69	65	—	198	4
Construction and development	—	—	—	5	—
Residential real estate:					
Owner occupied	73	73	—	152	—
Home equity	137	137	—	133	—
Other consumer	—	—	—	—	—
	$279	$275	$—	$488	$4
With an allowance recorded:					
Commercial	$130	$130	$58	$78	$1
Commercial real estate:					
Owner occupied	1,927	1,927	293	619	18
Non-owner occupied	2,046	2,046	93	3,014	32
Residential real estate:					
Owner occupied	301	301	30	366	—
Non-owner occupied	5	—	—	—	—
Home equity	752	752	72	857	4
Purchased home equity pools	188	188	14	245	—
Other consumer	—	—	—	—	—
	5,349	5,344	560	5,179	55
Total	$5,628	$5,619	$560	$5,667	$59

	Unpaid Principal Balance	Recorded Investment	Specific Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)				
December 31, 2019					
With no related allowance:					
Commercial	$—	$—	$—	$198	$—
Commercial real estate:					
Owner occupied	—	—	—	—	—
Non-owner occupied	79	75	—	2,621	5
Construction and development	26	26	—	15	—
Residential real estate:					
Owner occupied	447	447	—	381	2
Home equity	186	100	—	107	—
Other consumer	—	—	—	—	—
	$738	$648	$—	$3,322	$7
With an allowance recorded:					
Commercial	$467	$262	$262	$383	$—
Commercial real estate:					
Owner occupied	440	440	111	365	2
Non-owner occupied	3,844	3,844	1,019	822	—
Residential real estate:					
Owner occupied	411	411	36	399	—
Non-owner occupied	5	—	—	—	—
Home equity	1,004	1,004	89	1,131	4
Purchased home equity pools	293	293	11	316	—
Other consumer	—	—	—	—	—
	6,464	6,254	1,528	3,416	6
Total	$7,202	$6,902	$1,528	$6,738	$13

Payments received on impaired loans that are accruing are recognized in interest income according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are generally not recognized in interest income, but are applied as a reduction to the principal outstanding. The total amount of cash basis income recognized on impaired loans was immaterial for 2020 and 2019.

Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	Years Ended December 31, 2020	2019
	(Dollars in thousands)	
Balance at beginning of year	$8,007	$7,947
Charge-offs	(378)	(1,011)
Recoveries	440	254
Net loan recovery (charge-off)	62	(757)
Provision for loan losses	1,053	817
Balance at end of year	$9,122	$8,007
Allowance for loan losses as a percentage of loans	1.69%	1.56%

A summary of the changes in the allowance for loan losses by portfolio segment for the years ended December 31, 2020 and 2019, is as follows.

	At or For the Year Ended December 31, 2020							
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total
	(Dollars in thousands)							
Balance at beginning of year	$899	$5,292	$476	$763	$478	$89	$10	$8,007
Provision (credit) for loan losses	28	763	362	(48)	(104)	54	(2)	1,053
Charge-offs	(102)	(52)	(26)	—	(23)	(173)	(2)	(378)
Recoveries	89	2	—	109	88	152	—	440
Balance at end of year	$914	$6,005	$812	$824	$439	$122	$6	$9,122
Allowance for loan losses:								
Ending balance individually evaluated for impairment	$58	$386	$—	$30	$72	$14	$—	$560
Ending balance collectively evaluated for impairment	856	5,619	812	794	367	108	6	8,562
Loans:								
Ending balance individually evaluated for impairment	$130	$4,038	$—	$374	$889	$188	$—	$5,619
Ending balance collectively evaluated for impairment	70,478	280,814	23,866	140,849	15,694	1,729	345	533,775

	At or For the Year Ended December 31, 2019							
	Commercial	Commercial Real Estate	Construction and Development	Residential Real Estate	Home Equity	Purchased Home Equity Pools	Other Consumer	Total
	(Dollars in thousands)							
Balance at beginning of year	$1,924	$4,248	$408	$688	$549	$125	$5	$7,947
Provision (credit) for loan losses	(211)	1,043	68	57	(49)	(105)	14	817
Charge-offs	(837)	—	—	—	(86)	(79)	(9)	(1,011)
Recoveries	23	1	—	18	64	148	—	254
Balance at end of year	$899	$5,292	$476	$763	$478	$89	$10	$8,007
Allowance for loan losses:								
Ending balance individually evaluated for impairment	$262	$1,130	$—	$36	$89	$11	$—	$1,528
Ending balance collectively evaluated for impairment	637	4,162	476	727	389	78	10	6,479
Loans:								
Ending balance individually evaluated for impairment	$262	$4,359	$26	$858	$1,104	$293	$—	$6,902
Ending balance collectively evaluated for impairment	44,153	262,032	18,446	156,930	21,228	2,642	835	506,266

Troubled Debt Restructurings

CIB Marine has allocated $0.1 million and $0.1 million of specific reserves to customers whose loan terms have been modified as TDR at December 31, 2020 and 2019, respectively. CIB Marine has no additional lending commitments at December 31, 2020 and 2019, to customers with outstanding loans that are classified as TDR.

At December 31, 2020, there were $1.7 million of TDR loans, of which $0.8 million were classified as nonaccrual and $0.9 million were classified as restructured loans and accruing. The change in TDR loans from December 31, 2019, to December 31, 2020, was primarily due to $0.8 million of payments and paid-off TDR loans and $0.2 million of additional loans added to TDR. At December 31, 2019, there were $2.3 million TDR loans, of which $0.8 million were classified as nonaccrual and $1.5 million were classified as restructured loans and accruing. For the years 2020 and 2019, net charge-offs related to troubled debt restructurings totalled $0.01 million and $0.09 million, respectively.

The following tables show the modifications for TDRs made during 2020 and 2019, and TDRs for which there were payment defaults during the twelve months following the modifications:

	Years Ended December 31,					
	2020			2019		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructuring made during the year						
Commercial	—	$—	$—	—	$—	$—
Commercial real estate:						
Non-owner occupied	—	—	—	—	—	—
Residential real estate:						
Owner occupied	3	177	177	3	442	442
Home equity	2	21	21	2	67	67
Other consumer	—	—	—	—	—	—
	5	$198	$198	5	$509	$509

	Years Ended December 31,			
	2020		2019	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Troubled Debt Restructuring that subsequently defaulted				
Commercial	—	$—	—	$—
Residential real estate:				
Owner occupied	—	—	—	—
Home equity	—	—	—	—
	—	$—	—	$—

The TDRs described above increased the allowance for loan losses nominally during the years ended December 31, 2020 and 2019, and resulted in zero charge offs for both 2020 and 2019.

Credit Quality Indicators

CIB Marine categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CIB Marine analyzes commercial, commercial real estate, and construction and development loans individually by classifying the loans as to credit risk. The process of analyzing loans for changes in risk rating is ongoing through quarterly monitoring of the portfolio, annual internal credit reviews for select loans, at the time of refinance or TDR, and annual independent loan reviews that sample a majority of loan balances targeted to higher risk and higher concentrated areas of the portfolio. CIB Marine has engaged outside vendors approved by the Board of Directors to perform loan reviews annually, with the most recent having been performed during the third quarter of 2020. Management compares the results of such reviews to its own internal analysis and utilizes the results in support of current credit risk ratings and classifications. CIB Marine uses the following definitions for credit risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard-Accrual. Loans classified as substandard-accrual have a well-defined weakness or weaknesses that may jeopardize the liquidation of the debt. Such loans are characterized by an increased possibility that the institution will sustain some loss if the deficiencies are not corrected; however, based on recent experience and expectations for future performance, they are on accrual status.

Substandard-Nonaccrual. Loans classified as substandard-nonaccrual have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Such loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected, and they are on nonaccrual status.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable.

CIB Marine categorizes residential, home equity, purchased home equity pools, and other consumer loans into risk categories based on relevant information obtained at the time of origination about the ability of the borrower(s) to service their debt, such as current financial information, employment status and history, historical payment experience, credit scores, and type and amount of collateral, among other factors. CIB Marine updates relevant information for these types of loans at the time of refinance, troubled debt restructuring, or other indications of financial difficulty (e.g., past due status 90 days or more). All new loans are rated Pass at the time of origination. At origination, credit score and loan-to-value ("LTV") play a significant role in the approval of the credit and borrowers are required to have a credit score above 660 and, where collateralized, a LTV of 100% or less depending on the type of collateral. CIB Marine does not originate subprime loans or non-traditional residential real estate loans. If new information obtained indicates deteriorated risk, the loan is downgraded using the same category descriptions as used for commercial, commercial real estate, and construction and development loans. In addition, CIB Marine further considers current payment status as an indicator of which risk category to assign the borrower, but only in the direction of a deteriorated risk category. Loans past due 60-89 days are classified as substandard-accrual and loans 90 days or more past due are classified as doubtful. In the special case of the loans that are part of the purchased home equity pools, loans past due 27-89 days with certain other higher risk qualities at origination are considered substandard-accrual and 90 days past due loans are charged-off in full. As a result, there are no balances for these loans in substandard-nonaccrual or doubtful categories.

The greater the level of deteriorated risk, as indicated by a loan's assigned risk category, the greater the likelihood, a loss will occur in the future. If the loan is impaired then the loan loss reserve for the loan is recorded at the loan's level of impairment. If the loan is not impaired, then its loan loss reserves are determined by the application of a loss rate that increases with risk in accordance with CIB Marine's allowance for loan loss policy.

Loans not meeting the criteria for risk categorization as part of the above described processes are considered to be Pass-rated loans. All loans are rated. At December 31, 2020 and 2019, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard-Accrual	Substandard-Nonaccrual	Doubtful	Total Loans
			(Dollars in thousands)			
December 31, 2020						
Commercial	$68,858	$940	$810	$—	$—	$70,608
Commercial real estate:						
Owner occupied	67,224	3,983	3,920	236	—	75,363
Non-owner occupied	199,588	—	9,901	—	—	209,489
Construction and development	21,354	—	2,512	—	—	23,866
Residential real estate:						
Owner occupied	126,713	1,136	480	299	12	128,640
Non-owner occupied	12,293	290	—	—	—	12,583
Home equity	15,286	337	257	623	80	16,583
Purchased home equity pools	1,559	—	358	—	—	1,917
Other consumer	345	—	—	—	—	345
	$513,220	$6,686	$18,238	$1,158	$92	539,394
Deferred loan fees						(167)
Total						$539,227
December 31, 2019						
Commercial	$43,838	$260	$55	$262	$—	$44,415
Commercial real estate:						
Owner occupied	85,477	2,157	—	440	—	88,074
Non-owner occupied	166,330	2,029	6,114	3,844	—	178,317
Construction and development	16,005	1,931	510	26	—	18,472
Residential real estate:						
Owner occupied	145,207	2	602	425	42	146,278
Non-owner occupied	11,200	310	—	—	—	11,510
Home equity	21,090	70	577	566	29	22,332
Purchased home equity pools	2,726	—	209	—	—	2,935
Other consumer	835	—	—	—	—	835
	$492,708	$6,759	$8,067	$5,563	$71	513,168
Deferred loan costs						537
Total						$513,705

COVID-19 Related Loan Information

Loans with COVID-19 Payment Deferrals at December 31, 2020

CIB Marine provided 103 payment deferrals on outstanding loans with total principal balance of $76 million, or 14% of total outstanding loans at December 31, 2020, and 10 loans that were paid off as of year-end 2020. Of the outstanding loans that received deferrals, 68% of the deferrals have expired and the borrower is making payments as agreed and 32% are in active deferral period as of year-end 2020. The majority of the active deferrals will expire in either the first or second quarter of 2021.

COVID-19 Related Loan Deferrals

	Deferrals Expired and Paying		Deferrals Expired & Delinquent		Active Deferrals		Total Deferrals	Total Outstanding Loans	% Active Deferrals to Total Outstanding Loans
				(Dollars in thousands)					
	#	$	#	$	#	$			
Commercial real estate	30	$39,461	—	$—	20	$22,578	$62,039	$284,852	7.9%
Commercial and industrial	16	3,604	—	—	1	69	3,673	70,608	0.1
Commercial construction	4	4,257	—	—	—	—	4,257	23,866	—
1-4 Family	22	4,465	—	—	10	1,916	6,381	159,723	1.2
Consumer	—	—	—	—	—	—	—	345	—
	72	$51,787	—	$—	31	$24,563	$76,350	$539,394	4.5%
Deferred loan fees								(167)	
Total loans								$539,227	

COVID-19 loan payment modifications were primarily for periods extending from 2 to 6 months and included interest deferrals and principal and interest deferrals. Accrued interest is primarily added to the end of the loan for loans with payment deferrals. Active deferrals at December 31, 2020, were primarily in commercial real estate loans in the following industries: $9.2 million in hospitality, $3.6 million in entertainment and recreation, $3.2 million in parking lots and garages, and the remainder in other commercial properties.

COVID-19 loan payment modifications effectively froze the delinquency status of the respective loans until the deferral period was over and did not result in a troubled debt restructure designation or impairment if the reason for the payment deferral was that borrower was adversely affected by COVID-19. However, a loans loan risk grade, reserves for loan losses and non-accrual status were evaluated independent of any COVID-19 loan payment modification and all relevant factors were considered under the respective accounting policies of the bank.

Commercial Loans at Higher Risk from COVID-19

Management has identified six sectors as the most susceptible to immediate increased credit risk from the impact of COVID-19: retail, office space, hotels, health and social services, restaurants, and recreation. Loan in these higher risk sectors at year-end 2020 totaled $186 million, which represents 49% of total commercial loans. The at risk sectors include $149 million in commercial real estate loans, $26 million in commercial and industrial loans, and $11 million in construction and development loans.

	At Risk Commercial Loan Sectors								
	Retail	Office (1)	Hotel	Health & Social Services	Restaurants	Recreation	Total at Risk Sectors	Total Commercial Sector Loans	Percent
	(Dollars in thousands)								
Commercial real estate	$38,289	$60,969	$22,916	$9,629	$10,708	$6,324	$148,835	$284,852	52%
Commercial and industrial	—	19,268	182	3,679	1,856	708	25,693	70,607	36
Commercial construction	1,411	547	2,589	3,417	3,163	—	11,127	23,866	47
Total	$39,700	$80,784	$25,687	$16,725	$15,727	$7,032	$185,655	$379,325	49%

(1) Office includes both office real estate secured loans and non-real estate secured commercial investment and property management loans. The at risk commercial loan sectors were factor in determining the adequacy of allowance for loan losses.

Loans that had a COVID-19 related loan deferral represented 29.5% of the commercial loans at higher risk from COVID-19.

Director and Officer Loans

Certain directors and principal officers of CIB Marine and its subsidiaries, as well as companies with which those individuals are affiliated, are customers of and conduct banking transactions with CIBM Bank in the ordinary course of business. The loans to directors and principal officers were current with a Pass credit quality rating at December 31, 2020. The activity in these loans during 2020 and 2019 is as follows:

	For the Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Balance at beginning of year	$942	$2,351
Advances	200	1,441
Repayments	(899)	(2,850)
Balance at end of year	$243	$942

Note 5-Premises and Equipment, net

The major classes of premises and equipment and accumulated depreciation are summarized as follows:

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Land	$1,145	$1,145
Buildings	4,092	4,053
Leasehold improvements	1,103	806
Furniture and equipment	6,490	6,194
	12,830	12,198
Less: accumulated depreciation	(8,148)	(7,924)
	$4,682	$4,274

Depreciation expense was $0.6 million for each of the years ended December 31, 2020 and 2019. Total rental expense was $0.9 million for each of the years ended December 31, 2020 and 2019.

Note 6-Leases

CIB Marine enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers, and information technology equipment. CIB Marine's leases have remaining terms ranging from 2 to 9 years, some of which include renewal or termination options to extend the lease for up to 5 years. None of CIB Marine's leases include residual value guarantees or covenants.

CIB Marine includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain CIB Marine will exercise the option. CIB Marine has elected to not account for any non-lease components in its real estate leases as part of the associated lease component. Leases with original lease terms of 12 months or less (short-term leases) are not recognized on CIB Marine's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. At December 31, 2020, all CIB Marine leases are classified as operating. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

CIB Marine uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. CIB Marine's incremental borrowing rate is based on the US Treasury rate with the same maturity as the expected term of the lease, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities for operating leases, and the associated balance sheet classifications, are as follows:

		At December 31,	
		2020	2019
		Dollars in thousands	
	Balance Sheet Classification		
Right-of-use assets:			
Office space operating leases	Other assets	$2,849	$2,894
Equipment operating leases	Other assets	2	7
		$2,851	$2,901
Lease liabilities:			
Operating leases	Other liabilities	$2,851	$2,901

Lease Expense

The components of total lease cost for operating leases with initial terms of one year or more were as follows for the period ending:

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Real estate operating lease cost	$747	$778
Equipment operating lease cost	5	7
Total operating lease costs	$752	$785

Leases with initial terms of less than one year were $0.1 million at both December 31, 2020 and 2019.

Lease Obligations

CIB Marine leases certain premises and equipment under noncancellable operating leases, which expire at various dates through 2029 before considering renewal options. Such noncancellable operating leases also include options to renew. The following is a schedule by years of annual future minimum rental commitments, before renewal options, required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at December 31, 2020.

Future undiscounted lease payments for operating leases with initial terms of one year or more and through terms including future expected renewals were as follows as of December 31, 2020:

	Operating Leases
	(Dollars in thousands)
2021	$764
2022	755
2023	594
2024	342
2025	239
Thereafter	485
Total undiscounted lease payments	3,179
Less imputed interest	328
Net lease liabilities	$2,851

At December 31, 2020, the weighted average remaining lease term is 61 months and the weighted average discount rate used to calculate the present value of future lease payments is 4.64%.

Note 7-Other Real Estate Owned

A summary of OREO is as follows:

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Balance at beginning of year	$2,396	$2,486
Transfer of loans to OREO	232	—
Sale proceeds	(333)	(27)
Gains from sale of OREO	98	27
Write down and losses on sales of OREO	(518)	(90)
Balance at end of year	$1,875	$2,396

An analysis of the valuation allowance on OREO is as follows:

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Balance at beginning of year	$368	$278
Reduction from sales of real estate owned	3	—
Provision for write downs charged to operations	518	90
Balance at end of year	$889	$368

Net income/expenses from operations of OREO, gains/losses on disposals, and write downs of properties were $0.3 million and $0.03 million net income for the years ended December 31, 2020 and 2019, respectively.

Note 8-Goodwill and Intangible Assets

Goodwill. The change in goodwill during the year is as follows:

	For the Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Beginning of the year	$65	$65
Acquired goodwill	—	—
Impairment	—	—
End of year	$65	$65

CIB Marine elected to perform a qualitative assessment to determine if it is more likely than not the fair value of the goodwill exceeded its carrying value. If not, then CIB Marine would determine if impairment existed using a two-step process. Step 1 includes the determination of the carrying value of the reporting unit, including the existing goodwill and intangible assets, and estimating the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, a second step to the impairment test is necessary. Step 2 requires that the implied fair value of the reporting unit goodwill be compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. CIB Marine determined that, based on its qualitative assessment, goodwill was not impaired at December 31, 2020 or 2019.

The goodwill is deductible for tax purposes. CIB Marine acquired certain assets and liabilities of Avenue Mortgage Corporation ("Avenue") to enhance its residential mortgage origination capabilities in order to better serve customers within CIB Marine's banking markets. Adding these improved capabilities improves net revenue from retail mortgage banking activities, which includes selling most of the originated residential real estate loans to investors for a premium net of costs to originate. It also improves net interest income by retaining some of the originated residential real estate loans in CIB Marine's loan portfolio and for the short holding period of those held for sale.

Acquired Intangible Assets. Acquired intangible assets were as follows at year end:

	At December 31,			
	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in thousands)			
Amortized intangible assets:				
Mortgage banking intangibles	$223	$157	$223	$134

Aggregate amortization expense was $0.02 million for both 2020 and 2019. Estimated amortization expense for each of the next five years is $0.02 million per year.

Note 9-Federal Home Loan Bank Chicago

As a member of the Federal Home Loan Bank-Chicago ("FHLBC"), CIBM Bank is required to maintain minimum amounts of FHLBC stock as required by that institution. At December 31, 2020, and December 31, 2019, CIB Marine owned $3.1 million and $2.6 million carrying value in FHLBC stock, respectively. The stock is carried at par, of which $1.3 million and $2.6 million, were required stock holdings with the FHLBC based on the asset size of CIBM Bank as of December 31, 2020 and 2019, respectively. Impairment in FHLBC stock is recognized if CIB Marine concludes it is not probable that it will recover the par value of its investment. Due to the ongoing financial results and the long-term performance outlook of the FHLBC, no impairment has been recorded on the FHLBC stock during 2020 and 2019.

Note 10-Deposits

The aggregate amount of time deposits that meet or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250,000 or more at December 31, 2020 and 2019, was $17.9 million and $28.8 million, respectively. Included in time deposits are public deposits totaling $5.7 million and $4.9 million at December 31, 2020 and 2019, respectively, which were collateralized with pledged securities. Also included in time deposits are brokered deposits of $29.3 million and $15.0 million at December 31, 2020 and 2019, respectively. The scheduled maturities of time deposits are as follows:

	At December 31, 2020
	(Dollars in thousands)
2021	$142,700
2022	11,820
2023	13,736
2024	5,153
2025	14,545
Thereafter	2,308
	$190,262

Note 11-Short-Term Borrowings

Borrowings with original maturities of one year or less are classified as short-term. The following is a summary of short-term borrowings:

	At or For the Years Ended December 31,					
	Balance	Weighted-Average Rate at year end	% of Total Borrowings	Daily Average Balances	Weighted-Average Rate	Highest Balances at Month End
			(Dollars in thousands)			
2020						
Securities sold under repurchase agreements	$20,310	0.22%	39.6%	$21,879	0.27%	$26,273
Federal Home Loan Bank borrowings	31,000	0.20	60.4	56,808	0.53	57,500
	$51,310	0.21	100.0	$78,687	0.46%	77,273
2019						
Securities sold under repurchase agreements	$16,347	0.57%	22.1%	$16,593	0.88%	$19,124
Federal Home Loan Bank borrowings	57,500	1.76	77.9	36,071	2.40	60,000
	$73,847	1.49	100.0	$52,664	1.92%	73,847

Federal Funds Purchased

Federal funds purchased generally represent unsecured one-day borrowings. At December 31, 2020 and 2019, CIB Marine had no federal funds purchased.

Securities Sold Under Agreements to Repurchase

Securities sold under repurchase agreements are secured borrowings and represent borrowings maturing within one year. CIB Marine pledges investment securities that are collateralized by U.S. government agency securities and Agency MBS to secure those borrowings. If the fair value of the securities used as collateral declines, additional collateral may be required.

Securities sold under repurchase agreements were primarily to commercial customers of CIBM Bank under overnight repurchase sweep arrangements.

The following table shows the remaining contractual maturity of agreement by collateral pledged:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	**Up to 30 Days**	**30-90 Days**	**Greater Than 90 Days**	**Total**
	(Dollars in thousands)				
At December 31, 2020					
Repurchase agreements and repurchase-to-maturity transactions					
Residential mortgage-backed securities (agencies)	$20,310	—	—	—	$20,310
Total borrowings	$20,310	$—	$—	$—	$20,310
At December 31, 2019					
Repurchase agreements and repurchase-to-maturity transactions					
Residential mortgage-backed securities (agencies)	$16,347	—	—	—	$16,347
Total borrowings	$16,347	$—	$—	$—	$16,347

Amounts related to agreements are not included in offsetting disclosure.

The fair value of securities pledged to secure repurchase agreements may decline. CIB Marine manages this risk by having a policy to pledge securities valued at 1.02% above the gross outstanding balance of repurchase agreements. Securities sold under agreements to repurchase are secured by securities with a carrying amount of $20.7 million and $16.7 million at December 31, 2020 and 2019, respectively.

Federal Home Loan Bank - Chicago

CIB Marine is required to maintain qualifying collateral as security for both short-term and long-term FHLBC borrowings, letters of credit, and the credit equivalence of interest rate swaps, as applicable. At December 31, 2020, CIBM Bank had $31.0 million outstanding in short-term borrowings and $0.1 million of interest rate swaps. There are currently no long-term FHLBC borrowings outstanding. Assets pledged by CIBM Bank to the FHLBC were $146.4 million at December 31, 2020, with $31.1 million serving as collateral pledged to the activity above and $115.3 million in excess collateral available to support additional activity, if needed. The pledged assets primarily included residential, multifamily, and home equity loans that are part of CIBM Bank's loan portfolio.

Note 12-Stockholders' Equity

Preferred Stock

The key terms of the CIB Marine preferred stock issued on December 30, 2009, are as follows:

	Series A	Series B
Securities issued	Stated value of $47.3 million, 55,624 shares issued, par value-$1.00 and liquidation value-$1,000 per share	Stated value of $3.7 million, 4,376 shares issued, par value-$1.00 and liquidation value-$1,000 per share
Convertibility to common (1)	None	Each share convertible into 4,000 shares of common stock only upon consummation of a merger transaction where CIB Marine is not the surviving entity and where holders have voting rights
Dividends	7% fixed rate noncumulative, payable quarterly and subject to regulatory approval	7% fixed rate noncumulative payable quarterly and subject to regulatory approval
Redemption/maturity	No stated redemption date and holders cannot compel redemption	No stated redemption date and holders cannot compel redemption
Voting rights	No voting rights unless transaction (merger, share exchange or business combination) would be prejudicial to holders	No voting rights unless transaction (merger, share exchange or business combination) would be prejudicial to holders

(1) A reverse stock split of 1:15 shares of common stock occurred in 2020. As a result of the reverse stock split, each share of Series B preferred stock is now convertible into 266.66667 shares of common stock only upon consummation of a merger transaction where CIB Marine is not the surviving entity and where holders have voting rights.

In 2018, the common and preferred shareholders approved amendments to CIB Marine's Amended and Restated Articles of Incorporation ("the Articles"). The amendments modified certain rights of the preferred stock permitting non-mandatory preferred stock repurchases and a share dividend in a Section 382 shareholder rights plan. If any of the preferred stock remained outstanding after three years, certain of the modified rights of the preferred stock would expire and "spring back" to the original terms as issued on December 30, 2009. The Amended Articles of Incorporation can be found at www.cibmarine.com.

During 2020, the previously approved modified rights expired and an Amendment to the Articles which would have made permanent some of those rights, including permitting non-mandatory preferred stock repurchases, was rejected during a special meeting of preferred shareholders.

During 2018, 2019 and 2020, CIB Marine incurred $0.5 million, $0.1 million and $0.1 million, respectively, in expenses related to the repurchase of preferred stock. Expenses were for legal, investment banking, tax and other professional services reported in the consolidated financial statements of operations under professional services.

Between 2018 and 2020, CIB Marine repurchased the following preferred stock:

	2018	2019	2020	Total
	(Dollars in thousands)			
Preferred shares agreed to repurchase				
Series A	12,669	2,067	198	14,934
Series B	996	163	16	1,175
Total	13,665	2,230	214	16,108
Total purchase price				
Series A	$9,092	$1,441	$135	$10,668
Series B	715	146	14	875
Total	$9,808	$1,587	$149	$11,543
Total discount (premium) to carrying value				
Series A	$1,676	$316	$34	$2,026
Series B	132	(8)	(1)	123
Total	$1,808	$308	$33	$2,149
Common stock equivalence in convertible Series B shares repurchased				
Common stock equivalence	265,718	43,357	4,153	313,228

As of December 31, 2020, all preferred stock repurchases had settled with no remaining outstanding repurchases pending.

At December 31, 2020, outstanding shares of preferred stock totaled 40,690 shares of Series A and 3,201 of Series B. If all Series B preferred stockholders were to convert their shares in connection with a merger permitted under the their terms, they would own approximately 853,705 shares of common stock of CIB Marine or 39% of the outstanding common stock, down from 49% at December 31, 2017, or prior to the amendment in the Articles of Incorporation and the subsequent repurchase of preferred stock.

Treasury Stock

CIBM Bank acquired certain shares of CIB Marine stock through collection efforts when the borrowers defaulted on their loans. Any loan balance in excess of the estimated fair value of the stock and other collateral received was charged to the allowance for loan losses. At both December 31, 2020 and 2019, 722 shares of treasury stock (on a post reverse stock split of 1:15 basis) were directly owned by CIBM Bank and thus were not excluded from the number of shares outstanding.

Regulatory Capital Requirements

At December 31, 2020 and 2019, CIBM Bank was in compliance with its regulatory limits and minimum capital requirements.

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. As of December 31, 2020, CIBM Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized CIBM Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category. The actual and required capital amounts and ratios (as defined in the regulations) for CIB Marine and CIBM Bank are presented in the tables below.

	Actual		For Capital Adequacy Purposes(2)		To Be Well Capitalized Under Prompt Corrective Provisions (2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2020 (1)						
Total capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	$91,868	17.44%				
CIBM Bank	86,664	16.47	42,090	8.00	$52,613	10.00%
Tier 1 capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	$85,253	16.19%				
CIBM Bank	80,056	15.22	31,568	6.00	$42,090	8.00%
Tier 1 leverage to average assets						
CIB Marine Bancshares, Inc.	$85,253	11.46%				
CIBM Bank	80,056	10.77	29,736	4.00	$37,170	5.00%
Common equity Tier 1						
CIBM Bank	$80,056	15.22%	$23,676	4.50%	$34,198	6.50%
December 31, 2019 (1)						
Total capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	$79,592	15.19%				
CIBM Bank	76,806	14.68	41,855	8.00	$52,319	10.00%
Tier 1 capital to risk-weighted assets						
CIB Marine Bancshares, Inc.	$73,024	13.94%				
CIBM Bank	70,249	13.43	31,391	6.00	$41,855	8.00%
Tier 1 leverage to average assets						
CIB Marine Bancshares, Inc.	$73,024	10.71%				
CIBM Bank	70,249	10.31	27,247	4.00	$34,059	5.00%
Common equity Tier 1						
CIBM Bank	$70,249	13.43%	$23,544	4.50%	$34,007	6.50%

(1) Under the new capital regulation implemented January 1, 2015, referred to as Basel III, a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 (“CET1”), is established above the regulatory minimum capital requirements for capital adequacy purposes. The capital conservation buffer will be phased in between January 1, 2016, and year-end 2018, becoming fully effective on January 1, 2019. The capital conservation buffer was 2.5% for both the calendar years 2020 and 2019. Non-compliance with the capital conservation buffer can result in limitations of certain types of compensation for executive and equivalent officers. In addition, CIBM Bank made the one-time accumulated other comprehensive income opt-out election on the first Call Report filed after January 1, 2015, which allows community banks under $250 billion a one-time opt-out election to remove the impact of certain unrealized capital gains and losses (e.g., unrealized securities gains and losses) from the calculation of capital. The election cannot be changed in future periods.

(2) CIB Marine is a Small Bank Holding Company under Appendix C of Part 225 of the Federal Reserve regulation and, as a result, the consolidated CIB Marine is exempt from capital adequacy requirements.

No capital contributions were made by CIB Marine to CIBM Bank in 2020 or 2019.

The payment of dividends by banking subsidiaries is subject to regulatory restrictions by various federal and/or state regulatory authorities. In addition, dividends paid by bank subsidiaries are further limited if the effect would result in a bank subsidiary’s capital being reduced below applicable minimum capital amounts. CIB Marine did not receive any dividend payments from CIBM Bank during 2020 and 2019. CIBM Bank did not have any retained earnings available for the payment of dividends to CIB Marine without first obtaining the consent of the regulators.

With the required approval of its regulators, CIBM Bank amended its charter to enable it to distribute $3.0 million in capital to CIB Marine during both the years 2020 and 2019. The capital distributions where utilized, were primarily for the purpose of repurchasing preferred stock, the remainder are for future corporate purposes.

CIB Marine is prohibited under its Articles of Incorporation from paying any dividends on its common stock unless the quarterly dividend on its preferred stock has been paid in full for four consecutive quarters. No dividends have been declared or paid to date on CIB Marine’s preferred stock. This restriction does not prohibit the dividend of rights to common shareholders in conjunction with a NOL Rights Plan as described in the 2018 amendments to the Articles of Incorporation.

Note 13-Accumulated Other Comprehensive Income (Loss)

The following reflects changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ending December 31, 2020 and 2019:

	Unrealized Gains and (Losses) on Available for Sale Securities	
	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Beginning balance	$158	$(1,290)
Other comprehensive income before reclassification	1,871	1,448
Amounts reclassified from accumulated other comprehensive income	—	—
Net current period other comprehensive income	1,871	1,448
Ending balance	$2,029	$158

Note 14-Segment Information

The reportable segments are determined by the products and services offered, primarily distinguished between banking and mortgage banking operations. They are also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. Loans, investments, and deposits provide the revenues in the banking operation, and servicing fees and loan sales provide the revenues in mortgage banking. All operations are domestic.

Accounting policies for segments are the same as those described in Note 1-Significant Accounting Policies. Segment performance is evaluated using operating income. Income taxes are allocated and indirect expenses are allocated on revenue. Transactions among segments are made at fair value. Information reported internally for performance assessment is as follows:

	Year Ended December 31, 2020			
	Banking	Mortgage Banking	Other	Total Segments
	(Dollars in thousands)			
Total interest income	$25,547	$1,449	$—	$26,996
Total interest expense	4,664	150	—	4,814
Net interest income	20,883	1,299	—	22,182
Provision for loan losses	1,053	—	—	1,053
Net interest income after provision for loan losses	19,830	1,299	—	21,129
Unrealized gain recognized on equity securities	53	—	—	53
Net loss on sale of OREO	(420)	—	—	(420)
Net gain on sale of assets	454	—	4	458
Other noninterest income	186	21,524	—	21,710
Other noninterest expense	16,461	14,772	770	32,003
Income (loss) before income taxes	3,642	8,051	(766)	10,927
Income tax expense (benefit)	685	2,218	(160)	2,743
Net income (loss)	$2,957	$5,833	$(606)	$8,184
Goodwill and other intangible assets, net	$—	$131	$—	$131
Assets	$703,645	$42,332	$5,005	$750,982

	Year Ended December 31, 2019			
	Banking	Mortgage Banking	Other	Total Segments
	(Dollars in thousands)			
Total interest income	$27,467	$481	$—	$27,948
Total interest expense	8,459	188	—	8,647
Net interest income	19,008	293	—	19,301
Provision for loan losses	817	—	—	817
Net interest income after provision for loan losses	18,191	293	—	18,484
Unrealized gain recognized on equity securities	71	—	—	71
Net loss on sale of OREO	(63)	—	—	(63)
Net gain on sale of assets	870	—	2	872
Other noninterest income (loss)	(305)	9,581	—	9,276
Other noninterest expense	16,873	8,688	613	26,174
Income (loss) before income taxes	1,891	1,186	(611)	2,466
Income tax expense (benefit)	376	326	(279)	423
Net income (loss)	$1,515	$860	$(332)	$2,043
Goodwill and other intangible assets, net	$—	$154	$—	$154
Assets	$681,528	$17,154	$5,109	$703,791

Note 15-Earnings (Loss) Per Share

The following provides a reconciliation of basic and diluted earnings (loss) per share:

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Net income	$8,184	$2,043
Preferred stock dividends	—	—
Discount from repurchase of preferred stock	33	308
Net income allocated to common stockholders	$8,217	$2,351
Weighted average shares outstanding (1):		
Total common shares outstanding	1,263,001	1,227,833
Shares owned by CIBM Bank	(722)	(722)
Common shares outstanding	1,262,279	1,227,111
Basic	1,262,279	1,227,111
Stock awards outstanding	51,747	71,336
Assumed conversion of Series B preferred to common	853,705	882,329
Diluted	2,167,731	2,180,776
Earnings per share (1):		
Basic Net income	$6.51	$1.92
Diluted Net income	$3.79	$1.08

(1) Common share data prior to September 14, 2020, is adjusted to reflect the 1:15 reverse split to allow for comparability between the pre- and post- reverse split periods.

Vested restricted stock awards were issued and outstanding and included in the basic earnings per share at December 31, 2020 and 2019. Unvested restricted stock awards of 59,842 and 54,360 shares at December 31, 2020 and 2019, respectively, consisting of restricted stock whose dividends are subject to forfeit, are deemed to be dilutive and, therefore, included in the calculation of diluted earnings per share on a weighted average basis for the years ended December 31, 2020 and 2019. The unvested restricted stock awards were not included in the issued or outstanding shares due to their restrictions, potential for forfeiture, and vesting requirements. The unvested restricted stock awards were 52,476 shares and 71,336 shares on a weighted average basis for the years 2020 and 2019, respectively.

At December 31, 2020, the assumed conversion of Series B preferred stock represents a potential common stock issuance of 0.9 million shares on a weighted average basis for the year 2020. The effect of the potential issuance of common stock associated with the Series B preferred stock was deemed to be dilutive and, therefore, included in the calculation of diluted income per share for the years ended December 31, 2020 and 2019.

Note 16-Derivatives

The following table reflects the fair value hedges included in the consolidated statements of operations and comprehensive income (losses). The net amount gains (losses) due to hedge ineffectiveness was nominal.

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Change in fair value of interest rate swaps hedging designated loans included in other noninterest income	$(863)	$(360)
Change in fair value on loans, the hedged items included in other noninterest income	863	360

The following table reflects the fair value hedges included in the Consolidated Balance Sheets.

	At December 31,			
	2020		2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate swaps related to loans	$—	$—	$3,595	$1
Included in other liabilities:				
Interest rate swaps related to loans	$18,037	$863	$18,106	$361

CIB Marine utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. All interest rate swaps in the tables above are used to hedge the change in fair value of the hedged items (i.e., fixed rate loans) due to changes in the underlying benchmark interest rate, the U.S. dollar LIBOR interest rate swap rate. The combined effect of the interest rate swaps and the fixed rate loans being hedged is to convert fixed interest rate payments on the hedged items to floating rate as a spread to the U.S. dollar one month LIBOR. The interest income (expense) from the interest rate swaps is presented with the loan interest income. Gains (losses) on interest rate swap terminations are recorded in gain (loss) on sale of assets and write-downs in the income statement. CIB Marine recorded a loss of $0.1 million on interest rate swap terminations related to the early payoff of hedged loans for the year ended December 31, 2020, offset by early payoff premiums charged borrowers of hedged loans and recorded in other income, and a nominal loss in the year ended December 31, 2019.

Commitments to fund certain mortgage loans or IRLCs to be sold in the secondary market and a form of forward commitments contingent on the loan closing called Best Efforts Contracts (“BEs”) for the future delivery of mortgage loans to third party investors are considered to be derivatives. It is CIB Marine's practice to enter into BEs for future delivery of residential mortgage loans and TBA mortgage-backed securities when IRLCs are entered into in order to economically hedge the effect of the changes in interest rates resulting from its commitments to fund loans. These mortgage banking derivatives are not designated in hedge relationships.

Effect on the income statement for outstanding derivative contracts related to:

		Years Ended December 31,	
	Location	2020	2019
		(Dollars in thousands)	
Interest rate lock commitments	Mortgage banking income	$1,840	$105
Best efforts contracts related to mortgage banking revenue	Mortgage banking income	(309)	57
TBAs related to mortgage banking	Mortgage banking income	(299)	(54)

The following table reflects the notional amount and fair value of mortgage banking derivatives included in the Consolidated Balance Sheets as of December 31:

	At December 31,			
	2020		2019	
	Notional Value	Fair Value	Notional Value	Fair Value
	(Dollars in thousands)			
Included in other assets:				
Interest rate lock commitments	$70,856	$2,103	$14,303	$263
Best effort contracts related to mortgage banking	1,875	3	1,981	3
TBAs related to mortgage banking	—	—	5,250	5
Total included in other assets	$72,731	$2,106	$21,534	$271
Included in other liabilities:				
Interest rate lock commitments	$31	$—	$76	$—
Best effort contracts related to mortgage banking	56,911	(337)	10,397	(28)
TBAs related to mortgage banking	54,000	(353)	21,750	(59)
Total included in other liabilities	$110,942	$(690)	$32,223	$(87)

Note 17-Commitments, Contingencies and Off-Balance Sheet Risk

The following table summarizes the contractual or notional amount of off-balance sheet financial instruments with credit risk.

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Commitments to extend credit[(1)]:		
Fixed	$4,182	$5,050
Variable	59,467	68,715
Standby letters of credit	438	1,671

[(1)] Interest rate lock commitments to originate residential mortgage loans held for sale are considered derivative instruments and are disclosed in Note 16-Derivatives.

CIB Marine is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. CIB Marine has entered into commitments to extend credit and, on a limited basis, to make certain other investments in non-affiliated entities, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheets. CIB Marine considers the facts and circumstances of each of the other commitments, as well as the historical losses, if any, and the relevant economic conditions to inform management's judgment regarding changes for related credit exposures.

Standby letters of credit are conditional commitments that CIB Marine issues to guarantee the performance of a customer to a third-party. Fees received to issue standby letters of credit are deferred and recognized as noninterest income over the term of the commitment. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond funding, and other similar transactions. CIB Marine issues commercial letters of credit on behalf of customers to help ensure payments or collection in connection with trade transactions. In the event of a customer's nonperformance, CIB Marine's loan loss exposure is the same as in any extension of credit, up to the letter's contractual amount. Management assesses the borrower's financial condition to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable, and inventory. Since the conditions requiring CIB Marine to fund letters of credit may not occur, CIB Marine expects its future cash requirements to be less than the total outstanding commitments. The maximum potential future payments guaranteed by CIB Marine under standby letter of credit arrangements were $0.4 million and $1.7 million for December 31, 2020 and 2019, respectively with a weighted average remaining term of approximately twelve months and eleven months for December 31, 2020 and 2019, respectively. The standby letters of credit for which reserves were established were participated to nonaffiliated banks. CIB Marine did not default on any payment obligations with the other banks.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee except for overdraft lines of credit in which a fixed maturity date is not established. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. CIB Marine evaluates each customer's creditworthiness and determines the amount of the collateral necessary based on management's credit evaluation of the counterparty. Collateral held varies, but may include marketable securities, accounts receivable, inventories, property and equipment, and real estate. The interest rates range between 1.90% and 18.00% with a weighted average of 3.94%. The maturity dates range between January 2021 and open dated, the latter related to overdraft protection accounts. For commercial commitments to extend credit, totaling $44.0 million, the maturity dates range between January 2021 and October 2044 with a weighted average of 12 months.

In the normal course of business, loans sold to certain investors may need to be repurchased by CIB Marine should they become delinquent within a predefined period. These periods vary from investor to investor, pursuant to their agreements, and are generally short term (i.e., not more than six months). Although some of the loans are insured, primarily through Federal Housing Authority, Veterans Administration, or, in the case of conventional loans that exceed 80% loan-to-value, private mortgage insurance, there exists some potential loss to CIB Marine on each such loan sold under these repurchase clauses. To minimize this potential loss, CIB Marine has representation and warrant relief agreements with each investor. In addition, CIB Marine does not underwrite all the loans sold to investors. Instead, the investor underwrites some of the loans and, therefore, takes on underwriting-specific repurchase risks for the loans they underwrite.

Due to the fact CIB Marine does not underwrite certain loans sold, its quality control program, and its recent history for repurchase, CIB Marine estimates loss reserves to be nominal. The estimates will be continually reviewed and any adjustments will be reflected in operations in future periods.

CIB Marine and CIBM Bank engage in legal actions and proceedings, both as plaintiffs and defendants, from time to time in the ordinary course of business. In some instances, such actions and proceedings involve substantial claims for compensatory or punitive damages or involve claims for an unspecified amount of damages. There are presently no proceedings pending or contemplated which, in CIB Marine's opinion, would have a material adverse effect on its consolidated financial position.

CIB Marine did not recognize any litigation settlement or loss contingency expenses in 2020 or 2019.

Note 18-Fair Value

The following tables present information about CIB Marine's assets measured at fair value on a recurring basis at December 31, 2020 and 2019, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that CIB Marine has the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are significant unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability and reflect the CIB Marine's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

		Fair Value for Measurements Made on a Recurring Basis		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(Dollars in thousands)		
December 31, 2020				
Assets				
U.S. government agencies	$6,120	$—	$6,120	$—
States and political subdivisions	24,378	—	24,378	—
Trust preferred securities collateralized debt obligations	3,777	—	—	3,777
Other debt obligations	150	—	150	—
Asset backed securities	3,042	—	3,042	—
Residential mortgage-backed securities (agencies)	68,547	—	68,547	—
Total securities available for sale	106,014	—	102,237	3,777
Mutual funds	2,478	2,478	—	—
Interest rate swaps	—	—	—	—
Mortgage interest rate lock commitments	2,103	—	2,103	—
Mortgage written options	3	—	3	—
TBAs related to mortgage banking	—	—	—	—
Loans held for sale, residential	42,977	—	42,977	—
Total assets	$153,575	$2,478	$147,320	$3,777
Liabilities				
Interest rate swaps	$863	$—	$863	$—
Mortgage written options	337	—	337	—
TBAs related to mortgage banking	353	—	353	—
Total liabilities	$1,553	$—	$1,553	$—

		Fair Value for Measurements Made on a Recurring Basis		
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(Dollars in thousands)		
December 31, 2019				
Assets				
U.S. government agencies	$7,591	$—	$7,591	$—
States and political subdivisions	21,094	—	21,094	—
Trust preferred securities collateralized debt obligations	4,089	—	—	4,089
Other debt obligations	150	—	150	—
Asset backed securities	3,607	—	3,607	—
Residential mortgage-backed securities (agencies)	81,441	—	81,441	—
Total securities available for sale	117,972	—	113,883	4,089
Mutual funds	2,426	2,426	—	—
Interest rate swaps	1	—	1	—
Mortgage interest rate lock commitments	263	—	263	—
Mortgage written options	3	—	3	—
TBAs related to mortgage banking	5	—	5	—
Loans held for sale, residential	16,928	—	16,928	—
Total assets	$137,598	$2,426	$131,083	$4,089
Liabilities				
Interest rate swaps	$362	$—	$362	$—
Mortgage written options	28	—	28	—
TBAs related to mortgage banking	59	—	59	—
Total liabilities	$449	$—	$449	$—

Selected additional information regarding the model inputs and assumptions used to value certain Level 3 inputs include the following at December 31, 2020 and 2019:

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
	(Dollars in Thousands)			
December 31, 2020				
TPCDOs	$3,777	Discounted cash flow	Constant prepayment rate	1.0%-1.0% (1.0%)
			Loss severity	85%-85% (85%)
December 31, 2019				
TPCDOs	$4,089	Discounted cash flow	Constant prepayment rate	1.0%-1.0% (1.0%)
			Loss severity	85%-85% (85%)

The following table presents information about CIB Marine's assets and liabilities measured at fair value on a non-recurring basis at December 31, 2020 and December 31, 2019.

		Fair Value for Measurements Made on a Nonrecurring Basis			
Description	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses) Year-to-Date**
			(Dollars in thousands)		
December 31, 2020					
Assets					
Loans held for sale:					
Commercial real estate	$—	$—	$—	$—	$—
Impaired loans (1)					
Commercial	72	—	72	—	108
Commercial real estate	3,651	—	3,651	—	1,054
Construction and development	—	—	—	—	(26)
Residential real estate	—	—	—	—	—
Home equity	126	—	126	—	16
Purchased home equity pools	—	—	—	—	—
Other consumer	—	—	—	—	—
Total impaired loans	3,849	—	3,849	—	1,152
Other real estate owned:					
Commercial real estate	1,472	—	1,472	—	(291)
Construction and development	403	—	403	—	(130)
Residential real estate	—	—	—	—	—
Other Equity	—	—	—	—	—
Total	$5,724	$—	$5,724	$—	$731
December 31, 2019					
Assets					
Loans held for sale:					
Commercial real estate	$—	$—	$—	$—	$—
Impaired loans (1)					
Commercial	—	—	—	—	44
Commercial real estate	3,229	—	3,229	—	(1,126)
Construction and development	26	—	26	—	—
Residential real estate	368	—	368	—	—
Home equity	185	—	185	—	(81)
Purchased home equity pools	—	—	—	—	—
Other consumer	—	—	—	—	—
Total impaired loans	3,808	—	3,808	—	(1,163)
Other real estate owned:					
Commercial real estate	1,763	—	1,763	—	27
Construction and development	633	—	633	—	(90)
Residential real estate	—	—	—	—	—
Other Equity	—	—	—	—	—
Total	$6,204	$—	$6,204	$—	$(1,226)

(1) Impaired loans gains (losses) include only those attributable to the loans represented in the fair value measurements for December 31, 2020 and 2019. Total impaired loans at December 31, 2020 and 2019, were $5.6 million and $6.9 million, respectively.

The following table presents a roll forward of fair values measured on a recurring and nonrecurring basis using significant unobservable inputs (Level 3) for the periods presented.

	For Years Ended December 31,	
	2020	**2019**
	(Dollars in thousands)	
Loans held for Sale, commercial real estate		
Balance at beginning of year	$—	$—
Additions	5,790	9,834
Write down	—	—
Gain on sale	524	1,150
Settlements	(6,314)	(10,984)
Balance at end of year	$—	$—
Available for Sale Securities		
Balance at beginning of year	$4,089	$5,061
Total gains included in earnings (or changes in net assets)	—	—
Total losses included in other comprehensive income	(216)	(646)
Sales	—	—
Settlements	(96)	(326)
Balance at end of year	$3,777	$4,089

Gains and losses (realized and unrealized) for assets and liabilities reported at fair value on a recurring basis included in earnings for the year ended December 31, 2020 and 2019 (above), are reported in other revenues as follows:

	For the Years Ended December 31,	
	2020	**2019**
	(Dollars in thousands)	
Other Revenues		
Total gains or losses in earnings (or changes in net assets) for the period	$—	$—
Change in unrealized gains or losses relating to assets still held at reporting date	216	646

The total amount of gains and losses from changes in fair value of residential loans held for sale are included in earnings in net mortgage banking revenue along with the gains and losses from hedging activities. For loans held for sale hedged with a best efforts contract, the gain (loss) of the loan is offset with the (loss) gain of the best efforts contract with negligible to no difference when the loan sale is settled. For loans held for sale hedged with a TBA, the gain (loss) of the loan related to changes in fair value are offset in part by the (loss) gain of the TBA. The loss of settled TBA contracts for 2020 and 2019 were $2.4 million and negligible, respectively. For the years ended December 31, 2020 and 2019, for positions of residential loans held for sale were:

	For the Years Ended December 31,	
	2020	**2019**
	(Dollars in thousands)	
Interest income for the year	$1,437	$481
Change in fair value for open positions at year end	1,232	108
Total change in fair value	$2,669	$589

The following section describes the valuation methodologies used to measure recurring financial instruments at fair value, including the classification of related pricing inputs.

Securities Available for Sale. Where quoted market prices are available from active markets with high volumes of frequent trades for identical securities, the security is presented as a Level 1 input security. These would include predominantly U.S. Treasury bills, notes, and bonds. Securities classified under Level 2 inputs include those where quoted market prices are available from an active market of similar but not identical securities; where pricing models use the U.S. Treasury or LIBOR swap yield curves; where market quoted volatilities are used; and where correlated or market corroborated inputs are used, such as prepayment speeds, expected default, and loss severity rates. Securities with predominantly Level 2 inputs and using a market approach to valuation include: U.S. government agency and government sponsored enterprise issued securities and mortgage-backed securities; certain corporate or foreign sovereign debt securities; non-agency mortgage-backed securities; other asset-backed securities; equity securities with quoted market prices, but low or infrequent trades; and debt obligations of states and political subdivisions. Where

Level 1 or Level 2 inputs are either not available, or are significantly adjusted, the securities are classified under Level 3 inputs. The available for sale securities using Level 3 inputs were TPCDOs with fair values measured for PreTSL 26B-1 internally and reported to the Company's Investment Advisory Committee and for PreTSLs 27A-1 and 28A-1 externally using predominantly the income valuation approach (present value technique), where expected future cash flows less expected losses were discounted using a discount rate consisting of benchmark interest rates plus credit, liquidity and option premium spreads from similar and comparable, but not identical, types of debt instruments and from models.

Equity securities at fair value: Level 1 quoted market prices are used for the Mutual Fund, CRAIX, that comprise this category.

Derivative financial instrument (interest rate-related instruments): CIB Marine uses interest rate swaps to manage its interest rate risk. The valuation of CIB Marine's derivative financial instruments is determined using discounted cash flow models on the expected cash flows of each derivative. See Note 16-Derivatives for additional disclosure regarding CIB Marine's derivative financial instruments. The discounted cash flow analysis component in the fair value measurements reflects the contractual terms of the derivative financial instruments, including the period to maturity, and uses observable market-based inputs, including interest rate curves. More specifically, the fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments), with the variable cash payments (or receipts) based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CIB Marine determined that the majority of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy. The credit valuation adjustments, if any, utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. CIB Marine has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions as of December 31, 2020, and December 31, 2019, and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivative financial instruments. Therefore, CIB Marine has determined that the fair value measures of its derivative financial instruments in their entirety are classified within Level 2 of the fair value hierarchy.

The fair value of the mortgage derivatives, IRLCs, BEs and TBAs, are closely related to and, therefore, based on mortgage backed securities prices. These financial instruments trade in a liquid market. As a result, significant fair value Level 2 inputs can generally be verified and do not typically involve significant management judgments. Therefore, they are recorded under the Level 2 inputs category.

The aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Aggregate fair value	$42,977	$16,928
Contractual balance	41,032	16,441
Gain (loss)	$1,945	$487

Loans Held for Sale. The fair value of loans held for sale, consisting primarily of residential mortgage loans originated for the purpose of selling to investors, is based upon binding quotes from third party investors and closely related mortgage-backed securities prices. As a result, they are classified under Level 2 inputs category. Although the fair value changes over time, due to the related BEs, they generally settle at the agreed upon price, resulting in no change in fair value at that time.

The fair value of loans held for sale consisting of SBA 7(a) program loans originated for the purpose of selling to investors is based upon indicative prices for similar type and quality loans. As a result, they are classified under Level 3 inputs category. A market approach is the primary valuation technique used to measure the fair value of these loans held for sale.

The fair value of loans held for sale, also consisting of commercial real estate loans, are carried at the lower of cost or fair value, which is estimated based on indicative and general sale price levels for commercial real estate loans of similar quality and current prices for similar residential real estate loans offered by mortgage correspondent banks. Due to limited market activity in specific loan assets, all other loans designated as held for sale are valued predominantly using unobservable inputs classified under Level 3 inputs. These inputs include indicative prices, loan discount rates, and general loan market price level information for loans of similar type and quality. A market approach is the primary valuation technique used to measure the fair value of these loans held for sale.

Impaired Loans. Impairment losses are included in the allowance for loan losses. At the time a loan is considered impaired it is valued at the lower of cost or fair value. The impairment loss is based on Level 2 quoted market price inputs, a discounted cash flow analysis, or a fair value estimate of the collateral using Level 2 inputs, including primarily the appraised value of the real estate with certain other market correlated or corroborated information. The fair value of impaired loans represented in the fair value table includes only those loans that are carried at their fair value and, at this time, would only include those with an impairment loss either reserved for as a specific reserve or charged-off where that impairment loss was determined using a market approach to valuation based upon a fair value estimate of the collateral. For real estate collateral, a fair value estimate uses the appraised value of the real estate with certain other market correlated or corroborated information, as assessed by management, and is dependent on the type and geographical location of the property, as well as the time since the last appraisal.

Other Real Estate Owned. The fair value of OREO is generally determined based upon outside appraisals using observable market data for the same or similar real estate (Level 2). Adjustments to the appraised values are largely related to market correlated or corroborated information, such as observed changes in local real estate prices and broker costs. These were deemed to be Level 2 inputs since, in general, the market-based information was considered to be the primary determinant of the value. This information is periodically adjusted by management after assessing updated market information, the type and geographical location of the property, and the time since the last appraisal. In addition, brokerage costs, which are largely fixed percentages that do not vary or change other than nominally, are factored into the values. The carrying value of a foreclosed asset is immediately adjusted down when new information is obtained. This new information may include a new appraisal, a potentially acceptable offer, the sale of a similar property in the vicinity of one of CIB Marine's assets, and/or a change in the price the property is listed for based on market forces.

The table below summarizes fair value of financial assets and liabilities at December 31, 2020 and 2019.

		Fair Value Measurement			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
At December 31, 2020					
Financial assets:					
Cash and due from banks	$29,927	$29,927	$—	$—	$29,927
Loan held for sale	42,977	—	42,977	—	42,977
Securities available for sale	106,014	—	102,237	3,777	106,014
Equity securities	2,478	2,478	—	—	2,478
Loans, net	530,105	—	3,849	529,605	533,454
Federal Home Loan Bank stock	3,140	NA	NA	NA	NA
Accrued interest receivable	2,050	4	324	1,722	2,050
Mortgage interest rate lock commitments	2,103	—	2,103	—	2,103
Mortgage written options	3	—	3	—	3
Financial liabilities:					
Deposits	586,373	396,111	191,621	—	587,732
Short-term borrowings	51,310	—	51,310	—	51,310
Accrued interest payable	246	6	240	—	246
Interest rate swaps	863	—	863	—	863
Mortgage written options	337	—	337	—	337
TBAs related to mortgage banking	353	—	353	—	353

	Carrying Amount	Fair Value Measurement Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
At December 31, 2019					
Financial assets:					
Cash and due from banks	$8,970	$8,970	$—	$—	$8,970
Reverse repurchase agreements	11,196	—	11,196	—	11,196
Loan held for sale	16,928	—	16,928	—	16,928
Securities available for sale	117,972	—	113,883	4,089	117,972
Equity securities	2,426	2,426	—	—	2,426
Loans, net	505,698	—	3,808	493,377	497,185
Federal Home Loan Bank stock	2,587	NA	NA	NA	NA
Accrued interest receivable	1,486	35	405	1,046	1,486
Interest rate swaps	1	—	1	—	1
Mortgage interest rate lock commitments	263	—	263	—	263
Mortgage written options	3	—	3	—	3
TBAs related to mortgage banking	5	—	5	—	5
Financial liabilities:					
Deposits	530,190	320,663	209,644	—	530,307
Short-term borrowings	73,847	—	73,847	—	73,847
Accrued interest payable	603	17	586	—	603
Interest rate swaps	362	—	362	—	362
Mortgage written options	28	—	28	—	28
TBAs related to mortgage banking	59	—	59	—	59

	At December 31, 2020			At December 31, 2019		
	Contractual or Notional Amount	Carrying Amount	Estimated Fair Value	Contractual or Notional Amount	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)					
Off-balance sheet items:						
Commitments to extend credit						
Fixed	$4,182	$—	$—	$5,050	$—	$—
Variable	59,467	—	—	68,715	—	—
Mortgage loans to be held for sale	—	2,106	2,106	—	271	271
Standby letters of credit	438	—	—	1,671	(14)	(14)

Fair value amounts represent estimates of value at a point in time. Significant estimates regarding economic conditions, loss experience, risk characteristics associated with particular financial instruments, and other factors were used for the purposes of this disclosure. These estimates are subjective in nature and involve matters of judgment. Therefore, they cannot be determined with precision. Changes in the assumptions could have a material impact on the amounts estimated.

Because of the wide range of valuation techniques and the numerous estimates that must be made, it may be difficult to make reasonable comparisons of CIB Marine's fair value to that of other financial institutions. It is important that the many uncertainties discussed above be considered when using the estimated fair value disclosures and to realize that because of these uncertainties the aggregate fair value should in no way be construed as representative of the underlying value of CIB Marine.

The following describes the methodology and assumptions used to estimate fair value of financial instruments.

Cash and Due From Banks. The carrying amounts reported in the balance sheet for cash and due from banks approximates their fair value and are classified as Level 1 for due from accounts held at the Federal Reserve Bank or investment grade correspondent banks.

Reverse Repurchase Agreements. Reverse repurchase agreements are short term in nature with the interest rate reset daily to the Prime Rate. The carrying amounts reported in the balance sheet for reverse repurchase agreements approximates their fair value and are classified as Level 2.

Loans Receivable. The fair value of loans receivable are either Level 2 or Level 3. Fair values of certain impaired loans are evaluated at Level 2, as described above under the previous table "Fair Value for Measurements Made on a

Nonrecurring Basis. The fair value of all other loans are evaluated at Level 3 and estimated using the income approach to valuation by discounting the expected future cash flows using current benchmark interest rates with credit spreads for similar types of loans recently originated and additional credit quality discounts for special mention, substandard and doubtful loans; then further adjusted for a exit price discount. The credit spreads and quality discounts, exit price discount, and prepayment speeds used in deriving the fair value of loans receivable, represent significant unobservable inputs. The carrying value of loans receivable is net of the allowance for loan losses.

The fair value of loans held for sale is described in the preceding table.

Federal Home Loan Bank. There is no market for FHLBC stock and it may only be sold back to the FHLBC or another member institution at par with FHLBC and Federal Housing Finance Agency (“FHFA”) approval. As a result, its cost and its par value, at this time, represent its carrying amount. The carrying amount of FHLBC stock was $3.1 million and $2.6 million at December 31, 2020, and December 31, 2019, respectively.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value resulting in a Level 1, 2, or 3 classification consistent with the respective asset.

Deposit Liabilities. The carrying value of deposits with no stated maturity approximates their fair value, as they are payable on demand, resulting in a Level 1 classification. The fair value of fixed time deposits was estimated using the income approach by discounting expected future cash flows. The discount rates used in these analyses are based on market rates of interest for time deposits of similar remaining maturities, resulting in a Level 2 classification.

Short-term Borrowings. The carrying value of short-term borrowings payable within three months or less approximates their fair value, resulting in a Level 2 classification. The estimated fair value of borrowed funds with a maturity greater than three months is based on quoted market prices, when available. Borrowed funds with a maturity greater than three months for which quoted prices were not available, were valued using the income approach to valuation by discounting expected future cash flows by a current market rate for similar types of debt, resulting in a Level 2 classification. For purposes of this disclosure, short-term borrowings are those borrowings with stated final maturities of less than or equal to one year, including securities sold under agreements to repurchase, U.S. Treasury tax and loan notes, lines of credit, commercial paper, and other similar borrowings.

Federal Home Loan Bank Advances. The fair market value of long-term borrowings payable was estimated using the income approach by discounting the expected future cash flows using current interest rates for instruments with similar terms, resulting in a Level 2 classification.

Accrued Interest Payable. The carrying amount of accrued interest payable is used to approximate its fair value resulting in a Level 1 or 2 classification consistent with the respective liability.

Off-Balance Sheet Instruments. The fair value and carrying value of letters of credit and unused and open-ended lines of credit have been estimated based on the unearned fees charged for those commitments, net of accrued liability for probable losses.

Note 19-Loan Servicing

Loans serviced for others are not reported as assets. The principal balance of these loans at year-end are as follows:

	December 31,	
	2020	**2019**
	(dollars in thousands)	
Loan portfolios serviced for:		
FNMA	$21,788	$506
SBA	38,730	34,427

Custodial escrow balances maintained in connection with serviced loans were negligible at December 31, 2020 and 2019.

Activity for loan servicing rights and the related valuation allowance follows:

	December 31,	
	2020	2019
	(dollars in thousands)	
Loan servicing rights:		
Beginning of year	$630	$564
Additions	263	232
Disposals	—	—
Amortized to expense	(164)	(141)
Change in valuation allowance	(39)	(25)
End of year	$690	$630
Valuation allowance:		
Beginning of year	$51	$26
Additions expensed	39	25
Reductions credited to operations	—	—
Direct write-downs	—	—
End of year	$90	$51

The fair value of servicing rights for SBA loans being serviced for others was $0.7 million and $0.6 million at December 31, 2020 and 2019, respectively. SBA loan servicing rights fair value impairment assessment at year-end 2020 was determined using a discount rate of 7.6%, prepayment speeds ranging from 12.6% to 24.15% over the forecasted cash flow horizon, and a weighted average default rate of 3.2%. SBA loan servicing rights fair value impairment assessment at year-end 2019 was determined using a discount rate of 7.0%, prepayment speeds ranging from 8.0% to 21.2% over the forecasted cash flow horizon, and a weighted average default rate of 2.7%.

The fair value of servicing rights for FNMA loans being serviced for others was $0.1 million and negligible at December 31, 2020 and 2019, respectively. FNMA loan servicing rights fair value impairment assessment at year-end 2020 was determined using a prepayment speed of PSA 285, a cost to service of 6% and an investor yield of 13%. The fair value of servicing rights for FNMA loans at year-end 2019 was determined to be negligible and no impairment assessment was performed.

Note 20-Stock-Based Compensation

CIB Marine has one share-based compensation plan as described below.

Restricted Stock Plan. A Restricted Stock Plan adopted in 2016 (“RSP”) provides for the issuance of up to 2,000,000 restricted shares to directors and officers over time. Compensation and other expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the stock was determined using the last traded price as reported in the OTCQB market for CIB Marine’s stock, symbol CIBH, as of the grant date. During 2019, restricted stock awards of 22,298 shares were issued under the RSP. Directors vest at the rate of 1/3rd of the issued shares on each subsequent May 1st. RSP shares issued to officers fully vest on the third anniversary of the grant date. During 2020, restricted stock awards of 32,404 shares were issued under the RSP. Directors vest at the rate of 1/3rd of the issued shares on each subsequent May 1st. RSP shares issued to officers fully vest on the third anniversary of the grant date. In addition, executive officers are also required to meet certain income and asset quality performance measures for 2020 and 2019 before vesting for the respective restricted stock awards of each year. The income and asset quality performance measure were both met for 2020. The income performance measure was not met for 2019 resulting in executive officer forfeitures of 4,608 shares with a grant-date fair value of $107,147, and the asset quality performance measures were met for 2019.

A summary of changes in CIB Marine's non-vested shares for the years 2020 and 2019 follows:

Non-vested Shares	**Shares (1)**	**Weighted-Average Grant-Date Fair Value (1)**
Non-vested at January 1, 2019	67,060	$15.15
Granted	22,298	23.25
Vested	(27,515)	15.61
Forfeited	(7,485)	22.49
Non-vested at December 31, 2019	54,360	$21.75
Granted	32,404	16.35
Vested	(24,794)	16.56
Forfeited	(2,128)	25.30
Non-vested at December 31, 2020	59,842	$1.45

(1) Both shares and weighted-average grant date fair values are stated on a post reverse stock split basis for the 1-for-15 share reverse stock split effective September 14, 2020.

As of December 31, 2020 and 2019, there was $0.6 million and $0.5 million of total unrecognized compensation and other cost related to non-vested shares granted under the RSP. The cost is expected to be recognized over a weighted-average period of 0.5 years. The grant date fair value of shares vesting during the years ended December 31, 2020 and 2019 was $0.4 million and $0.4 million, respectively. Total compensation and other expense for the RSP that has been charged against income was $0.4 million and $0.5 million for 2020 and 2019, respectively.

Note 21-Other Benefit Plans

CIB Marine provides a defined contribution 401(k) plan to all employees of CIB Marine and its subsidiaries who have attained age 18. Employees may enter the plan on the first day of the month following sixty days of employment. The plan permits participants to make voluntary tax deferred contributions up to the maximum permitted by law. Participants age 50 or older are allowed to make a stated amount of additional contributions on a tax-deferred basis as permitted by law. In 2020 and 2019, the matching contribution was 50% of the employee's contribution up to 6% of compensation. The total expenses incurred for employer matching contributions to the plan were $0.4 million and $0.3 million during the years ended December 31, 2020 and 2019, respectively. All administrative costs to maintain the plan are paid by the plan.

CIB Marine provides a supplemental executive retirement plan ("SERP") to certain officers. A liability is accrued for the obligation under these plans through the officers' respective service periods. The total expenses incurred for these plans were $85,000 and $77,000 during the years ended December 31, 2020 and 2019, respectively. Total liabilities outstanding for SERP included in other liabilities on the balance sheet were $0.5 million and $0.4 million at December 31, 2020 and 2019, respectively. The following benefit payments, reflecting expected future service to retirement age, are $253,000 over the next five years and, subsequently, over the following five years, or years six through ten, total $350,000.

Note 22-Income Taxes

The provision for income taxes on income from continuing operations in the consolidated statements of operations consisted of the following components:

	Years Ended December 31, 2020	2019
	(Dollars in thousands)	
Current tax provision:		
Federal	$14	$(11)
State	(30)	(4)
Deferred tax		
Federal	2,090	450
State	869	201
Change in valuation allowance (1)	(200)	(213)
Total income tax expense	$2,743	$423

(1) The change in the valuation allowance in the tax provision table above for 2020 consists of a net reduction of current income tax expense of $200,000 related to the realization of expiring state deferred tax assets in 2020 by an amount greater than originally forecasted at December 31, 2019.

The total change in the valuation allowance in 2019 was a $569,000 reduction. The change in the valuation allowance for 2019 in the table above consists of a net reduction of current income tax expense of $213,000 related to additional alternative minimum tax ("AMT") tax credit carryforwards from a prior acquisition and the elimination of a prior sequestration valuation, changes to certain state net operating loss carryforward periods and statutory state tax rates resulting in additional available state net operating losses at increased tax rates, offset by the utilization of expiring state deferred tax assets in 2019 by an amount less than originally forecasted at December 31, 2018. In addition, in 2019 there was a non-provision related reduction in the valuation allowance of $356,000 as well as a corresponding reduction in the deferred tax assets that represents those unutilized expiring state tax assets that, as of December 31, 2018 were projected to be unused in 2019 and for which a corresponding valuation allowance was established.

A reconciliation of the income tax provision and income tax from continuing operations that would have been provided by applying the federal statutory rate of 21% for the years ended December 31, 2020 and 2019, is as follows:

	Years Ended December 31, 2020		2019	
	Amount	%	Amount	%
	(Dollars in thousands)			
Income tax at statutory tax rate	$2,295	21.0%	$517	21.0%
Increase (reduction) in tax rate resulting from:				
State income taxes, net of federal income tax effect and valuation allowance	688	6.3	160	6.5
Tax-exempt interest	—	—	—	—
Affordable housing credits	—	—	—	—
Change in valuation allowance (1)	(200)	(1.8)	(213)	(8.6)
Other, net	(40)	(0.4)	(41)	(1.7)
	$2,743	25.1%	$423	17.2%

(1) The total change in the valuation allowance in 2020 was a $86,000 reduction. The change in the valuation allowance for 2020 in the table above consists of a net reduction of current income tax expense of $200,000 related to the realization of expiring state deferred tax assets in 2020 by an amount greater than originally forecasted at December 31, 2019 which was offset by a change in the a state tax rate for certain recoverable state deferred tax assets.

The total change in the valuation allowance in 2019 was a $569,000 reduction. The change in the valuation allowance for 2019 in the table above consists of a net reduction of current income tax expense of $213,000 related to additional AMT tax credit carryforwards from a prior acquisition and the elimination of a prior sequestration valuation, changes to certain state net operating loss carryforward periods and statutory state tax rates resulting in additional available state net operating losses at increased tax rates, offset by the utilization of expiring state deferred tax assets in 2019 by an amount less than originally forecasted at December 31, 2018. In addition, in 2019 there was a non-provision related reduction in the valuation allowance of $356,000 as well as a corresponding reduction in the deferred tax assets that represents those unutilized expiring state tax assets that, as of December 31, 2018 were projected to be unused in 2019 and for which a corresponding valuation allowance was established.

The tax effects of temporary differences that give rise to net deferred tax (liabilities)/assets reported in other assets in the accompanying consolidated balance sheets are as follows:

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands	
Deferred tax assets:		
Loss carryforwards (1)	$20,943	$24,015
Tax credit carryforwards	—	393
Allowance for loan losses	2,485	2,226
Net unrealized loss in securities available for sale	—	—
Other loss reserves	28	28
Other	541	696
Deferred tax assets before valuation allowance	23,997	27,358
Valuation allowance (2)	(6,506)	(6,592)
Net deferred tax assets	17,491	20,766
Deferred tax liabilities:		
Net unrealized loss in securities available for sale	$751	$59
Other	448	638
Total deferred tax liabilities	1,199	697
Net deferred tax assets	$16,292	$20,069

(1) Includes U.S. federal and state net operating and charitable contribution carryforwards as limited under Internal Revenue Code ("IRC") Sections 382. The loss carryforward deferred tax asset is comprised of $11.6 million of federal NOL with no valuation allowance and $9.3 million of state NOL with $6.5 million valuation allowance.

(2) The change in the valuation allowance as reported in the consolidated balance sheet and in this table relates primarily to changes to in certain state net operating loss carryforward periods and statutory tax rates, offset by the expiring state deferred tax assets that were part of the valuation allowance as established at December 31, 2019, and for which there are corresponding changes to the deferred tax assets for those expiring at the end of 2020.

Pursuant to Sections 382 of the IRC, CIB Marine is subject to an approximately $2.3 million annual limitation on the use of its $102.4 million of pre-2010 federal net operating losses ("NOLs"). Accordingly, at December 31, 2020, only $27.2 million of these NOLs, which expire in varying amounts through 2029, will be available to offset future taxable income.

Federal NOLs arising subsequent to 2009 in post-emergence years are not subject to this limitation absent another ownership change for U.S. tax purposes. This limitation generally does not apply to CIB Marine's various state NOLs due to varying state jurisdictional recognition of the federal statutes, differing NOL carryforward periods, and state apportionment factors. Therefore all of the state NOLs are generally available without limitation. From the total of $55.3 million available federal NOLs at December 31, 2020, $28.2 million were generated after 2009. CIB Marine also has $143.5 million state NOLs and a related valuation allowance of $95.7 million at December 31, 2020. The state and federal NOLs expire at various dates through 2035.

The Tax Cuts and Jobs Acts passed in 2017 limits the utilization of federal net operating losses generated for tax years beginning after January 1, 2018, to 80% of taxable income. At this time, all of CIB Marine's federal net operating losses were generated prior to 2018. However, net operating losses arising in years prior to January 1, 2018, can offset 100% of taxable income, unless subject to IRC Section 382.

The realization of a Deferred Tax Asset ("DTA") is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the DTA will not be realized. "More likely than not" is defined as the DTA being more than 50% likely of being realized. All available evidence, both positive and negative, is considered to determine whether, based on the weight of the evidence, a valuation allowance against the net DTA is required. In assessing the need for a valuation allowance, CIB Marine considered all available evidence about the realization of the DTA both positive and negative, that could be objectively verified.

Based on CIB Marine's continued recent earnings history and future earnings projections, among other facts and circumstances, management determined that it was more likely than not that a portion of the net deferred tax asset at December 31, 2020, will not be realized. In the assessment of the valuation allowance, it was determined that all of the available federal NOLs, but only a portion of the state NOLs, would be realized. Consequently, the deferred tax asset was reduced by a valuation of allowance for the portion of the state NOLs that is more likely than not that they would not be realized and, at December 31, 2020, was $6.5 million. After being evaluated and reduced by the Section 382 limitation, the federal NOLs have no valuation allowance.

CIB Marine's ultimate realization of the DTA is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the nature and amount of historical and projected future taxable income, the scheduled reversal of deferred tax assets and liabilities, and available tax planning strategies in making this assessment. The amount of deferred taxes recognized could be impacted by changes in any of these variables.

CIB Marine files income tax returns in the U.S. federal and various state jurisdictions. With limited separate company state exceptions, CIB Marine is no longer subject to income tax examinations by U.S. federal tax and state tax authorities for years before 2017. CIB Marine has no unrecognized tax benefits as of December 31, 2020 and 2019. CIB Marine does not anticipate material adjustments to the amount of total unrecognized tax benefits within the next twelve months.

Note 23–Revenue from Contracts with Customers

All of CIB Marine's revenue from contracts with customers in the scope of ASC 606 was recognized within noninterest income. The following table represents CIB Marine's sources of noninterest income for the twelve months ended December 31, 2020 and 2019. Items outside the scope of ASC 606 are noted as such.

	Years Ended December 31,	
	2020	**2019**
	Dollars in thousands	
Non-interest income		
Overdraft and nonsufficient fund fees	$59	$91
Other	305	286
Deposit service charges	364	377
Other service fees	129	102
Mortgage banking revenue, net(1)	20,295	8,174
FHLB stock dividends(1)	115	89
BOLI income(1)	111	101
Rental income on OREO property(1)	198	189
Fannie Mae and SBA loan servicing fee income(1)	148	130
Other loan fees	27	27
Other fees(1)	323	87
Other income	922	623
Net gains on sale of securities available for sale(1)	—	—
Unrealized losses recognized on equity securities(1)	53	71
Gain(loss) on sale of OREO and write-downs	(420)	(63)
Gain on sale of SBA 7(a) loans(1)	524	1,150
Gain (loss) on loan hedges(1)	(133)	(19)
Other(1)	67	(259)
Net gains on sale of assets and (write downs)	38	809
Total noninterest income	$21,801	$10,156

(1) Not within scope of ASC 606.

Other than the net mortgage banking revenue, substantially all of the noninterest income was recognized within the banking segment.

A description of CIB Marine's revenue streams accounted for under ASC 606 follows:

Deposit service charges: CIB Marine earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees which include services such as return check, stop payment, wire transfer and ATM fees, for instance, are recognized at the time the transaction is executed as that is the point in time CIB Marine fulfills the customer's request. Account maintenance and other commercial payment service fees are earned over the course of a month, representing the period over which CIB Marine satisfies the performance obligation. Overdraft and non-sufficient fund fees are recognized at the point in time that they occur. Service charges on deposits are withdrawn from the customer's account balance.

Other service fees: CIB Marine's other service fees are comprised of interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees on net were $61,000 and $11,000 for the years ending December 31, 2020 and 2019, respectively, net of customer awards or refunds of $14,000 and $18,000, respectively. In addition, other service fees include merchant fee income earned over the course of a month from third party vendors for services provided to customers of CIB Marine for processing of credit and debit card transactions; safe deposit box rentals; electronic transfer fees paid at the time of the transaction earned and paid monthly and other nominal services.

Gain(loss) on sale of OREO and (write-downs): CIB Marine records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed, and records a write-down on OREO when updated information about OREO, such as a new appraisal or report on the condition of the property, shows a decline in fair value.

Note 24-Parent Company Financial Statements

The condensed financial statements of the parent company only, are presented as follows:

Condensed Balance Sheets

	At December 31,	
	2020	2019
	(Dollars in thousands)	
Assets		
Cash and due from affiliated bank	$3,645	$966
Investments in subsidiaries	93,523	85,860
Deferred tax assets, net	6,591	6,593
Income tax receivable	98	135
Other assets	34	15
Total assets	$103,891	$93,569
Liabilities		
Other liabilities	$187	$165
Total liabilities	187	165
Stockholders' Equity		
Preferred stock	37,308	37,490
Common stock	1,282	18,868
Capital surplus	179,188	161,175
Accumulated deficit	(115,569)	(123,753)
Accumulated other comprehensive income, net	2,029	158
Treasury stock at cost	(534)	(534)
Total stockholders' equity	103,704	93,404
Total liabilities and stockholders' equity	$103,891	$93,569

Condensed Statements of Operations and Comprehensive Income

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Dividend Income		
Dividends from subsidiary	$—	$2,700
Total dividend income	—	2,700
Noninterest income		
Change in equity in undistributed earnings of subsidiaries	8,790	(324)
Gain on sale of assets, net	4	2
Other income	—	—
Total noninterest income (loss)	8,794	(322)
Noninterest expense		
Professional services	442	296
Insurance	65	85
Other	263	233
Total noninterest expense	770	614
Income before income taxes	8,024	1,764
Income tax benefit	(160)	(279)
Net income	8,184	2,043
Preferred stock dividends	—	—
Discount from repurchase of preferred stock	33	308
Net income allocated to common stockholders	$8,217	$2,351

Comprehensive Income

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Net income	$8,184	$2,043
Other comprehensive income	1,871	1,448
Comprehensive income	$10,055	$3,491

Condensed Statement of Cash Flows

	Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$8,184	$2,043
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Change in equity in undistributed earnings of subsidiaries	(8,790)	324
Change in deferred tax assets, net	2	(3,402)
Decrease in interest receivable and other assets	452	1,274
Increase (decrease) in other interest payable and other liabilities	46	(23)
Net cash provided by (used in) operating activities	(106)	216
Cash Flows from Investing Activities:		
Return of capital from subsidiary	3,000	3,000
Dividends from subsidiary	—	2,700
Net cash provided by investing activities	3,000	5,700
Cash Flows from Financing Activities:		
Reverse stock split fractional share payment	(19)	—
Preferred shares repurchase	(206)	(5,083)
Net cash used in investing activities	(215)	(5,083)
Net increase in cash and cash equivalents	2,679	833
Cash and cash equivalents, beginning of year	966	133
Cash and cash equivalents, end of year	$3,645	$966

Note 25 - Quarterly Consolidated Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in thousands, except share data)				
For the Year Ended December 31, 2020					
Total interest income	$6,636	$6,669	$7,202	$6,489	$26,996
Total interest expense	1,689	1,343	1,017	765	4,814
Net interest income	4,987	5,326	6,185	5,724	22,182
Provision for loan losses	202	249	501	101	1,053
Net interest income after provision for loan losses	4,745	5,077	5,684	5,623	21,129
Gain (loss) on sale of securities available for sale	—	—	—	—	—
Unrealized gain (loss) recognized on equity securities	39	20	—	(6)	53
Other noninterest income	2,603	4,469	8,104	6,572	21,748
Other noninterest expense	6,322	7,308	9,056	9,317	32,003
Income before income tax expense	1,065	2,258	4,732	2,872	10,927
Income tax expense	281	575	1,322	565	2,743
Net income	784	1,683	3,410	2,307	8,184
Preferred stock dividends	—	—	—	—	—
Discount from repurchase of preferred stock	—	33	—	—	33
Net income attributable to common stockholders	$784	$1,716	$3,410	$2,307	$8,217
Earnings per share:					
Basic (1)	$0.63	$1.36	$2.69	$1.82	$6.51
Diluted (1)	0.36	0.79	1.56	1.06	3.79

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in thousands, except share data)				
For the Year Ended December 31, 2019					
Total interest income	$7,015	$7,078	$7,035	$6,820	$27,948
Total interest expense	2,178	2,256	2,183	2,030	8,647
Net interest income	4,837	4,822	4,852	4,790	19,301
Provision for (reversal of) loan losses	(158)	(67)	327	715	817
Net interest income after provision for (reversal of) loan losses	4,995	4,889	4,525	4,075	18,484
Gain (loss) on sale of securities available for sale	—	—	—	—	—
Unrealized gain (loss) recognized on equity securities	30	34	18	(11)	71
Other noninterest income	1,332	2,676	3,817	2,260	10,085
Other noninterest expense	5,505	6,557	7,233	6,879	26,174
Income (loss) before income taxes	852	1,042	1,127	(555)	2,466
Income tax expense (benefit)	229	281	93	(180)	423
Net income (loss)	623	761	1,034	(375)	2,043
Preferred stock dividends	—	—	—	—	—
Discount from repurchase of preferred stock	—	—	308	—	308
Net income (loss) attributable to common stockholders	$623	$761	$1,342	$(375)	$2,351
Earnings (loss) per share:					
Basic (1)	$0.45	$0.60	$1.09	$(0.30)	$1.92
Diluted (1)	0.30	0.30	0.62	(0.30)	1.08

(1) Common share data prior to September 14, 2020, is adjusted to reflect the 1:15 reverse split to allow for comparability between the pre- and post- reverse split periods.